Liberty Kenya Holdings Limited

Annual Report and
Financial Statements

2015

For the year ended 31 December

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Notice of Annual General Meeting

Notice is hereby given that the 11th Annual General Meeting of the members of Liberty Kenya Holdings Limited will be held on Tuesday 7th June 2016, at The Sarova Stanley Hotel Nairobi, at 11.00 a.m. to transact the following business:

1. To table the proxies and note the presence of quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if approved, adopt the Annual Report and the Audited Financial Statements for the year ended 31 December 2015, together with the Chairman's, Directors' and Auditors' Report thereon.
4. To declare a NIL dividend for the Year ended 31 December 2015.
5. To elect Directors:
   - In accordance with Article 88 of the Company's Articles of Association, Mr. Sandile Hlophe, a director appointed to fill a casual vacancy retires at the dissolution of the meeting and, being eligible, offers himself for re-election.
6. To approve the Directors' remuneration for the year ended 31 December 2015 as provided in the Financial Statements.
7. To reappoint Messrs KPMG to continue in office as the auditor under section 159(2) of the Companies Act and to authorise the Directors to fix their remuneration.
8. Any other business of the Company of which due notice has been given.

By order of the Board

Caroline Kioni
Company Secretary
P.O Box 30390-00100
NAIROBI
Date: 29th March 2016

NOTES:

1. In accordance with section 136(2) of the Companies Act every member entitled to attend and vote at the above meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not be a Member of the Company.
2. A form of proxy may be obtained from the Company's Share Registrar, Comprite Kenya Limited, Crescent Business Centre, The Crescent off Parklands Road opp. MP Shah Hospital, Nairobi, the Company's registered office, Liberty House, Processional Way/Mamlaka Road Nairobi or the Company's website www.libertykenya.co.ke. To be valid, the form of Proxy must be duly completed by the member and returned to the Share Registrar Comprite Kenya Limited, Crescent Business Centre, The Crescent off Parklands Road opp. MP Shah Hospital, Nairobi, not later than Friday 3 June 2016. In the case of a body corporate the Proxy must be under it's seal.
3. A copy of the entire annual report and accounts may be viewed at the Company's website www.libertykenya.co.ke or a printed copy may be obtained from the Company's share Registrar, Comprite Kenya Limited, Cresent Business Center Parklands road Opp. MP. Shah hospital or the Company's registered office at Liberty House, Processional way/ mamlaka road Nairobi.

Corporate Information

Directors

S A Mboya	Chairman
M L du Toit*	Managing
P Gethi	Non-Executive
G R May**	Non-Executive
M Mittal**	Non-Executive (Resigned on 27 August 2015)
S Hlophe*	Non-Executive (Appointed on 27 August 2015)

* South African
** British

Secretary
C Kioni (Ms)
PO Box 30390 - 00100
Nairobi

Independent Auditor
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 - 00100
Nairobi

Registered office
LR No 209/8592/2
Liberty House
Mamlaka Road
PO Box 30390 - 00100
Nairobi

Subsidiaries
Liberty Life Assurance Kenya Limited (100%)
The Heritage Insurance Company Kenya Limited (100%)
Azali Limited (100%)
CfC Investments Limited (100%)
The Heritage Insurance Company Tanzania Limited (60%)

Share Registrar
Comprite KenyaLimited
Crescent Business Centre Parklands
Off Parklands Road
P O Box 63428 - 00619
Nairobi

Lawyers
Coulson Harney Advocates
5th floor, ICEA Lion Centre Riverside Park
Chiromo Road
PO Box 10643 - 00100
Nairobi

Bankers
CfC Stanbic Bank Limited
NIC Bank Limited

Design & Printing
pvg Kenya Limited
E: info@pvg.co.ke

Chairman's Statement

It is my pleasure to present the annual report and financial statements for Liberty Kenya Holdings Limited ("Liberty Kenya") for the year ended 31 December 2015. Liberty Kenya Holdings Limited and it's subsidiaries (the Group) maintained consistent growth in revenues and net assets for the year ended 31 December 2015. Both long term and short term lines of our businesses in Kenya and Tanzania registered positive growth in the core insurance earnings, underpinning the Group's focus on customers with prudent underwriting and good service.

The Year's performance was delivered against the backdrop of an increasingly challenging operating environment characterised by intense competition from traditional and non-traditional players. The Group has implemented prudent operational and risk management models that ensure all business lines are well capitalised.

a) Group structure
Liberty Kenya is a subsidiary of South African-based Liberty Holdings Limited, which is in turn majority owned by the Standard Bank Group, also of South Africa. Whilst Liberty Kenya is listed on the Nairobi Securities Exchange, both its immediate and ultimate majority shareholders are listed on the Johannesburg Stock Exchange in South Africa.

Liberty Kenya owns subsidiaries that engage in both short term and long term insurance business. Through its three operating entities, Liberty Life Assurance Limited (Liberty Life) and The Heritage Insurance Company Kenya Limited (Heritage) and Heritage Insurance Company Tanzania Limited, the Group continues to be a key player in the insurance sector, both in Kenya and Tanzania. The Group's interest in Tanzania is through a 60% shareholding in Heritage Insurance Company Tanzania Limited.

b) 2015 Economic Environment
Despite the challenges of high interest rates and volatility in foreign currency the economy has remained resilient and as can be seen by the growth figures released so far. In the third quarter, GDP growth came in at 5.8%, supported by the Construction industry (14.1%), Mining and Quarrying (12.5%), Electricity Supply (11.0%) and Financial Intermediation (10.1%). The Kenya Shilling lost ground against the US Dollar, declining by 13.0% with 9.5% being in the first half of the year. The decline is attributed to (i) a strong global dollar in the international markets, (ii) a wide current account deficit at the beginning of the year but improved to 6.9% from 10.4% at the start of the year due to reduced import bill, (iii) reduced foreign exchange earnings from horticulture and tourism sectors, (iv) increased dollar denominated imports for infrastructural projects.

In the last quarter of the year, the currency was relatively stable supported by:

- **Improved Diaspora Remittances:** The inflows continued to improve growing at a rate of 7.7% y/y based on the 12 month cumulative inflows of USD 1.5 bn to December 2015 from USD 1.4 bn in the same period the previous year,
- **Central Bank Reserves:** The Central Bank however held sufficient reserves throughout the year to stem the decline of the shilling. After declining to 3.98 months of import cover, CBK has accumulated more reserves to close the year at 4.6 months of import cover, and ;
- **IMF Facility:** Approval for USD 688 mn (Shs.70 bn) precautionary IMF facility to provide a buffer to protect the shilling against any economic shocks.

Inflation increased gradually over the year from 6.0% in December 2014, to 7.0% in June 2015, and by December 2015 it had peaked at 8.0%. At the beginning of the year, lower oil prices led to a slight decline in the inflation rate, however the (i) weakening shilling, (ii) effect of the El-Nino rains on agricultural food prices, and (iii) price increases in beer and cigarettes due to the Excise Duty Bill have eroded the gains made, with inflation now past the upper barrier of the 2.5% - 7.5% CBK target.

(i) Equities Market
Markets declined in 2015, with the NSE 20 index and the NASI declining 21% and 10.6% respectively. This downturn was supported by a host of local and global factors. Monetary policy tightening in response to inflationary pressures and exchange rate volatility amidst a global strengthening of the dollar as well as rising local fixed income yields saw investors shun the stock market in favor of fixed income and money markets.

Equity turnover declined by 3.02% to Shs.209b from Shs.215b posted in 2014. Market valuation as measured by the price to earnings ratio dropped from 15.3x at the end of 2014 to 12.9x at the end of 2015. Global equities traded sideways, as fears of spread from the disorderly retreat in Chinese equity markets deepened global risk aversion. US stocks however remained resilient in 2015. The S&P 500 declined slightly by 0.73% to close the year at 2,043.94 points. Nikkei index rose by 9.07% to close the year at 19,033.71 points.

(ii) Bond Market
The short end of the curve experienced a lot of volatility in the year and rose significantly in the second half of the year.

Chairman's Statement (continued)

This was mainly due to tighter liquidity conditions and higher domestic borrowing requirements. In October, the Central Bank of Kenya offered a 1 year amortizing bond at 22.9%. In November, it issued a 5 year bond worth Shs.30.7b at an average interest rate of 13.9% while in December a 9 year Infrastructure bond worth Shs. 16b was offered at an average rate of 14.753%. FTSE bond index edged lower by 3.53% to close the year at 90.53 points. Going forward, the CBK's liquidity management through Open Market operations and high appetite for funds by Government is likely to support elevated rates on the shorter end of the yield curve.

(iii) Interest Rates
Volatility was the theme for interest rates in 2015. The 91 day rate averaged 10.4% for the year after rising to levels of 21.4% in October. The 182 day and the 364 Treasury Bills averaged 12.2% and 12.9% respectively after touching levels of 21.4% and 21.5% respectively in October. In a bid to reduce money supply, the Central Bank raised its policy rate by 3% to 11.5% in July. The Central Bank maintained the rate unchanged thereafter to allow the transmission of the policy actions. KBRR was revised upwards to 9.9% from 8.5%. Throughout the year CBK's Open market operations were active to control market liquidity and support the currency.

(iv) Inflation
Headline inflation accelerated to 8.01% in December 2015 from 6.02% in December the previous year. Overall inflation averaged 6.6% in 2015 as compared to 6.9% in 2014, well within the Central Bank of Kenya's upper target of 7.5%. Non-food and non-fuel inflation closed the year above 5% at 5.6% indicating that the monetary policy was ineffective in containing demand driven inflation late 2015.

For better part of the year, core inflation was within the 5% target and averaged 4.2% Month -on- month. Food inflation rose to 12.4% in December 2015 from 11.8% in November 2015 as effects of El Niño and a weaker currency raged. On the other hand, Fuel inflation rose to 2.9% from 2.3%, occasioned by increases in average bus fares by 3.4% and 2.0%, respectively. Pressure on prices is likely to remain as post ElNiño rains effect takes course in January 2016. In addition, imported goods may become pricier owing to a weaker currency.

c) Group financial highlights
The Group reported a profit after tax of Shs 736 Million for the year ended 31 December 2015, a decline of 36% on the previous year's Shs 1,149 Million.

The value of investments in both the equities and listed bonds across East African markets experienced a significant decline as a result of a fall in listed equity prices and the bonds yield curve. This has negatively impacted on the group and company earnings in Kenya and Tanzania. The businesses have a robust asset liability management strategy embedded as part of the business processes and continually assess opportunities to improve on market returns of investments in line with the existing portfolios.

Key Achievements for the year under review are summarised as follows:

- Profit after tax for the year 2015 was Shs 736 Million compared to Shs 1,149 Million for 2014, a 36% decline.
- Gross earned premium revenue at Shs 9.35 Billion up 16% from Shs 8.03 Billion.
- Investment income at Shs 1.83 Billion down 38% from Shs 2.97 Billion.
- Net insurance benefits and claims at Shs 3.12 Billion down 9.5% from Shs 3.45 Billion.
- The Group maintained a strong statement of financial position increasing its total asset base by 4% from Shs 34.53 Billion to Shs 33.19 Billion.

d) Regulations

(i) Insurance act amendments
The insurance Act was amended in the year introducing some fundamental changes that will have far reaching consequences in the way insurance business is conducted. The most significant changes were the increase in minimum capital required, introduction of Risk Based Capital (RBC) as well as changes in solvency determination based on RBC. RBC is a factor based model that considers key risks that typical insurance firms in the Kenyan market are expected to be exposed to namely insurance, market, credit and operational risks.

General insurance companies are required to hold higher of Paid-up share capital of Shs 600m, Risk based capital determined by the Authority from time to time; or 20% of previous year net earned premiums.
Long term insurance business are required to hold the higher of Paid up Share capital of Shs 400m, Risk based capital determined by the Authority from time to time; or 5% of the liabilities of the life business for the financial year.

(ii) Taxation

Tax Procedures Act, 2015
The Government introduced the Tax Procedures Bill, 2015

Chairman's Statement (continued)

which was assented by the President on 15 December 2015. The Act was published on 18 December 2015 and is now Law, effective 19 January 2016.

The Tax Procedure Act (the Act) seeks to harmonise and consolidate the procedures for tax administration in Kenya. Currently, each tax legislation has different administrative procedures resulting in complexity in the legislation. The Act is one of the overhauls that the Government has undertaken in the recent past to reduce the cost of doing business.

The Act aims to provide uniform procedures for consistency and efficiency in the administration of tax laws, facilitate tax compliance by tax payers and promote the effective and efficient collection of tax. It covers procedures for Income Tax Act (ITA), Value Added Tax Act (VAT) and Excise Duty (Excise).

(ii) Excise Duty Act, 2015

Since the introduction of excise tax in 2013 affecting insurance premiums, insurance commissions and fees, the industry through AKI has made various attempts to lobby Government for exemption. The Excise bill 2015 which is now Law removed requirement for insurance companies to pay excise tax on premium rated items with effect from 1st December 2015. We appreciate efforts made by AKI in lobbying the Government for this amendment.

(iii) Value Added Tax (VAT)

In Tanzania, VAT was introduced on insurance premiums effective 1 July 2015. It is calculated on premiums accrued hence need to collect premiums up front. The management is considering measures to ensure premiums are collected upfront since VAT is due on premium accrual.

e) Business environment

(i) Competition

In the last few years, the insurance industry has attracted a lot of interest resulting to new entrants from both emerging and developed markets. The market consolidations through mergers in the recent past have also changed the landscape of insurance industry. Price undercutting has however remained rampant in almost all classes of business. This competitive pressure to grow top line by continuously reducing the price has led to underwriting losses for the industry.

In the recent past, large multinationals with deep pockets have acquired well managed small to large insurance underwriters instantly transforming them into key players in the industry. The technical knowledge and capital transfer that these large multinationals bring cannot be underestimated.

(ii) High customer debt

The group struggled with high levels of debt in 2015. The group is reviewing credit terms to ensure credit risk is within manageable limits and in line with insurance Act. Debt also compromises the company's solvency position since it is not admitted asset when calculating solvency for an insurance company.

We welcome the current AKI initiative to get members to register for Credit Reference Bureau (CRB) as this will allow us to vet new clients since their credit history will be shared freely.

(iii) Cost of doing business

The industry continues to experience high levels of fraud from general public, intermediaries as well as staff. According to the quarterly report issued by IRA for 3rd Quarter 2015, motor vehicle claims fraud and employee theft top the list. Uncertain tax legislation such as excise tax and VAT on salvages also goes to add to the cost of doing business.

(iv) Staff changes

In the year, there were some exits necessitated by the need to review the orientation of our business. The business environment has become complex and coupled with changing technological innovations, change has become the constant.

(v) Staff retention

It is becoming increasingly difficult to retain key talent. There is a wide skills gap in the industry that is only getting worse due to the rate of growth in the industry, new product innovations, and new channels of distribution. The insurance Act requires key positions holders to possess certain minimum qualifications. The Group provides training for all staff members writing professional examinations. The Group also provides staff with generous benefits including staff mortgages as tool to help them in their personal development.

f) Corporate Social Responsibility

During 2015, the Group engaged on a Corporate Social Responsibility programme anchored on the 3 main pillars of

Chairman's Statement (continued)

education, health and the environment in line with the Liberty Group CSR policy. We currently have over 160 students in high school education and a further 45 in university education through our CSR programme.

The group will continue to be guided by the following in resource allocation;

- Strategic relevance – concerned primarily with education needs in the society.
- Proportional payback – expenses incurred or resources allocated are covered by the notional value of the benefit derived of ensuring customer loyalty and employee satisfaction.
- Substance – sufficient to make a real, measurable impact on society
- Sustainability – projects should be sustainable to ensure the impact is felt by the intended group

g) Outlook

We will continue to take advantage of technology to improve customer experience by increasing the various touch points with which our customers can interact with us. The management is currently reviewing the current data sets to indentify gaps that need to be closed to enable us understand our customers better.

As a Group we remain actively focused on adapting our business model to accommodate a number of significant market and regulatory developments while increasing our responsiveness to growth opportunities in our chosen markets.

h) Dividend

As a result of changes in the regulatory environment in the insurance industry requiring the subsidiary businesses to hold higher capital coupled with recent loss of value of investments, the Board of Directors do not recommend the payment of a dividend (2014: Shs 0.50 per share).

i) Appreciation

I wish to thank my fellow board members for their support, contributions and insights during the year. In the year Mr. Mukesh Mittal resigned from the board after serving the Company from March 2012. Mr. Sandile Hlophe was appointed by the board to fill a casual vacancy in the year and will offer himself for election at AGM. I take this opportunity to welcome Sandile to the board.

My appreciation also goes to our customers for trusting us with their insurance solutions and our intermediaries for their invaluable support during the year. Finally, I also wish to thank our staff for their continued commitment to serving our customers.

S A Mboya
Chairman
29 March 2016

Corporate Governance Report

1. Introduction

The Directors are committed to the principles of good governance and appreciate the importance of governing the business with integrity and accountability to all the stakeholders. The Board prescribes to the Commonwealth Association of Corporate Governance principles and has adopted the recommended guidelines and associated principles of best practice.

Through its subsidiaries Liberty Life Assurance Kenya Limited, Heritage Insurance Company Kenya Limited and Heritage Insurance Tanzania Company Limited, Azali Limited and CfC Investments Limited, the Board of Liberty Kenya Holdings Limited follows principles of openness, integrity and accountability in its stewardship of the organisation's affairs. It recognises the dynamic nature of corporate governance and continuously assesses the Group's compliance with generally accepted corporate practices on a regular basis. The role of the Board is to ensure conformance by focusing on and providing the Group's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision.

The Board is responsible for maintaining a system of internal control and for reviewing its effectiveness regularly to ensure that the assets of the Group are safeguarded while maintaining a reliable system of managing financial information, so that the Group's objectives of increased growth in profitability and shareholder value are realised.

2. Board of Directors

The Board of Directors consists of one executive Director and four non-executive directors who have been chosen for their business acumen and wide range of skills and experience. During the year four meetings were held and the attendance by the Directors was as follows:

Directors	8 April 2015	11 June	27 August 2015	20 November 2015
Dr. S A Mboya	Y	Y	Y	Y
Mr. G R May	Y	Y	Y	Y
Mr. P Gethi	Y	Y	Y	Y
Mr. M Mittal*	Y	Y	Y	N/A
Mr. M L du Toit	Y	Y	Y	Y
Mr. S Hlophe	N/A	N/A	Y	Y

Y Attended * Retired N/A Not Applicable

The Board is responsible for setting the direction of the Group through the establishment of strategic objectives, key policies and decision making process to achieve the objectives of the organisation. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability against approved strategic approaches.

3. Board Committees

The Group is headed by the Board of Directors, which has ultimate responsibility for the management and strategic guidance and assumes the primary responsibility of fostering the sustainability of the Group's business. The Board has the overall responsibility for establishing oversight of the Group's risk management framework. The performance against financial and corporate governance objectives is monitored by the Board through managements' quarterly reporting.

The implementation of the Group's strategic objectives is done at the individual subsidiary companies, through various established Board and management committees including Audit and Risk Committees ('ARC') and Investment Committees. The Company's ARC meets at least twice a year in accordance with the half yearly financial reporting period adopted by the Group. Attendance during the year is shown below:

Directors	19 February 2015	1 April 2015	5 August 2015
Mr. G R May	Y	Y	Y
Mr. P Gethi	Y	Y	Y
Mr. M Mittal	Y	Y	Y

Y Attended

Corporate Governance Report (continued)

The Company also has a Directors' Affairs Committee comprising the Chairman of the Board, and two Directors, one of whom is Non-Executive. The mandate of this Committee includes ensuring the effectiveness of the Group's governance structures.

4. Board effectiveness and evaluation

The Board is focused on continued improvements in its effectiveness and corporate governance performance.

5. Sustainability

Social and environmental responsibility remains an important part of Liberty Kenya Holding Group culture. The monitoring and reporting of sustainability issues is still an evolving discipline within the organisation. However the Board, through its subsidiaries, is conscious of the fact that, as a Group, its sustainability and success is dependent upon the environment and the communities within which the Group operates. Through our subsidiaries it is our policy to ensure that our activities meet the social, economic and environmental expectations of all our stakeholders.

6. Social responsibility

As a Kenyan business, the Group understands the challenges and benefits of doing business in Kenya, and owes its existence to the people and societies within which it operates. The Group is committed therefore not only to the promotion of the economic development but also to the strengthening of civil society and human well-being. The Group concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the country's social-economic needs change. The Group focus is mainly in the area of education and health with a long term view of sustaining the projects at hand.

7. Going Concern

The Board has reviewed the facts and assumptions, on which it relied and, based on these, will continue to view the Group as a going concern for the foreseeable future.

8. Remuneration

Liberty Kenya Holdings Limited has a clear policy on remuneration of executive and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience required, nature and size of the Board. The non-executive Directors remuneration is reviewed periodically by the Directors' Affairs Committee.

The amounts paid to directors are included in note 30 which represents the total remuneration paid to executive and non-executive directors for the year under review.

S A Mboya
Chairman

Managing Director

29 March 2016

Board of Directors

Dr Susan Mboya

Mike Du Toit

Sandile Hlophe

Gayling May

Peter Gethi

Caroline Kioni
(Company secretary)

Biographies of the Board of Directors

Susan Mboya (51)

Dr. Susan Mboya joined Liberty Kenya Board in 2012 and was appointed chairman on 29 November 2012. She is the Chairman of the Company and the Group Director, Eurasia, Africa Group (EAG) for Women's Economic Empowerment at Coca Cola. In this role, Susan is leading the Group's deployment of an initiative undertaken by the Coca-Cola Company from September 2010 to empower five million women entrepreneurs across the Coca-Cola System by 2020. In May 2009, Dr Mboya was awarded a honorary Doctorate in Humanities from Lakeland College in Wisconsin, for her work on the Zawadi Africa Educational Fund. In December 2010 she was awarded the Elder of the Burning Spear (EBS), the highest civilian award from the Kenya Government in recognition of her dedication and service to the Country's youth through the Zawadi Africa Educational Fund.

Mike du Toit (54)

Mr. Mike du Toit joined Liberty in 2010. He is the Company's Managing Director and Liberty Holding's Regional Group Executive for East and Central Africa responsible primarily for strategic growth initiatives, governance and stakeholder engagement. Prior to this he was Managing Director of CfC Stanbic Bank Limited having led the merger of the Stanbic and CfC Groups. As a career banker, he has extensive experience in the financial services field across sub-Sahara Africa having worked and lived in, amongst others Botswana, Mozambique, South Africa and Uganda. He also sits on the Boards of Heritage Insurance Company Kenya Limited, Liberty Life Assurance Kenya Limited, The Heritage Insurance Company Tanzania Limited, Liberty Life Assurance Uganda Limited, STANLIB Kenya Limited, STANLIB Uganda Limited and STANLIB Tanzania Limited.

Sandile Hlophe (44)

Mr. Sandile Hlophe joined Liberty in 2015. He is the Chief Executive - Group Arrangements. He holds a BAcc (UKZN), PGDip Acc (UKZN), CA(SA). He has extensive executive management and corporate finance experience. He joined Liberty from EY Africa where he led a Pan Africa Corporate Finance practice and served in the Executive Committee. He spent three years at the Standard Bank Group and was also a partner and Board member at KPMG South Africa.

Gayling May (73)

Mr. Gayling R. May, who was appointed to the Board in December 2009, has an extensive accounting background having worked for PricewaterhouseCoopers in various countries for 37 years. He is a Fellow of The Institute of Chartered Accounts in England and Wales (FCA), a member of the Institute of Certified Public Accountants of Kenya (CPA) and a member of the Institute of Certified Public Secretaries of Kenya (CPS). He holds directorships in Swissport Kenya Limited, British American Tobacco Kenya Limited, Liberty Life Assurance Kenya Limited, Heritage Insurance Company Kenya Limited, Liberty Kenya Holdings Limited. He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, and active throughout East Africa.

Peter Gethi (50)

Mr Peter Gethi was appointed to the Board on 17 December 2009. He holds a BSc (Hons) degree in Agriculture Economics and has expansive managerial experience in Agriculture Business Management. He has been a General Manager with Kilimanjaro Plantations Limited (TZ) and Senior Group Manager with SCEM Limited (formally Standard Chartered Estate Management). He currently works both as an Agricultural Consultant and is involved with Real Estate Development as Managing Director of Nebange Ltd. He is also the Chairman of Heritage Insurance Company Kenya Limited and Liberty Life Assurance Kenya Limited and a director of The Heritage Insurance Company Tanzania Ltd, CfC Stanbic Holdings Limited and CfC Stanbic Bank Limited. He serves on the Audit and Risk Committees of Liberty Kenya Holdings Limited, and Heritage Insurance Company Tanzania Limited.

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2015, in accordance with Section 157 of the Kenyan Companies Act, which disclose the state of affairs of Liberty Kenya Holdings Limited and its subsidiaries (together the "Group") and of Liberty Kenya Holdings Limited (the "Company").

Principal activities
The Group is engaged in the business of insurance and wealth management through its subsidiaries namely Liberty Life Assurance Kenya Limited and the Heritage Insurance Company Kenya Limited. The Group underwrites classes of long term and general insurance as defined in the Kenyan Insurance Act with the exception of bonds investments. It also issues investment contracts to provide customers with asset management solutions for their savings and retirement needs.

Results and dividend
Profit for the year ended 31 December 2015 of Shs 736,050,000 (2014:Shs 1,148,985,000) has been added to retained earnings.

The Directors do not recommend the payment of a dividend (2014: Shs 0.50 per share).

Directors
The names of the directors who held office during the year and to the date of this report are set out on page 5.

Auditor
KPMG Kenya were appointed auditors and have indicated their willingness to continue in office in accordance with Section 159 (2) of the Companies Act.

Approval of Financial Statements
The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016.

By Order of the Board

Caroline Kioni
29 March 2016

Statement of Directors' responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of Liberty Kenya Holdings Limited set out on pages 18 to 75 which comprise the Group and Company statements of financial position as at 31 December 2015, the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the Group and Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in accounting policy 1.2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group and company for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group and the Company's ability to continue as a going concern and have no reason to believe the Group and the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements
The financial statements, as indicated above, were approved by the Board of Directors on 29 March 2016 and were signed on its behalf by:

S A Mboya
Chairman

M L du Toit
Managing Director

Group

Financial highlights - Five year consolidated statement of profit or loss

	2015 Shs '000	2014 Shs '000	2013 Shs '000	2012 Shs '000	2011 Shs '000
Net insurance premium revenue	5,525,834	4,692,485	4,067,128	3,982,386	4,237,933
Investment and other income	2,745,822	3,610,067	3,311,482	4,067,013	2,195,322
Total income	**8,271,656**	**8,302,552**	**7,378,610**	**8,049,399**	**6,433,255**
Net insurance benefits and claims	(3,126,117)	(3,456,461)	(3,076,841)	(3,761,475)	(2,482,494)
Operating expenses and commissions	(4,191,837)	(3,509,440)	(2,995,520)	(3,137,549)	(2,940,927)
Result of operating activities	**953,702**	**1,336,651**	**1,306,249**	**1,150,375**	**1,009,834**
Earnings from associates	-	9,918	(7,387)	23,704	2,381
Profit before income tax	**953,702**	**1,346,569**	**1,298,862**	**1,174,079**	**1,012,215**
Income tax expense	(217,652)	(197,584)	(192,942)	(316,230)	(61,797)
Profit for the year	**736,050**	**1,148,985**	**1,105,920**	**857,849**	**950,418**
Costs to income	51%	42%	41%	39%	46%
Earnings per share (Shs)	1.37	2.14	2.15	1.66	1.84

Financial highlights - Five year consolidated financial position

	2015 Shs '000	2014 Shs '000	2013 Shs '000	2012 Shs '000	2011 Shs '000
Total equity	**6,233,113**	**6,157,189**	**5,464,882**	**4,554,231**	**3,865,638**
Assets					
Property, equipment and intangible assets	1,185,433	1,100,816	1,136,877	1,165,093	1,176,517
Investment property	1,035,500	936,000	842,200	710,449	623,553
Goodwill	1,254,995	1,254,995	1,254,995	1,254,995	1,254,995
Investment in associates	-	-	70,041	61,498	355,400
Financial investments	19,064,519	19,098,156	15,949,076	14,083,814	13,956,773
Other assets	5,236,068	4,552,324	5,746,018	4,062,108	3,636,393
Cash and cash equivalents	6,757,174	6,251,762	6,452,983	6,033,693	2,892,146
Total assets	**34,533,689**	**33,194,053**	**31,452,190**	**27,372,10,0**	**23,895,777**
Liabilities					
Insurance contract liabilities	11,060,752	9,720,729	10,320,927	7,523,118	6,239,993
Deposit administration liabilities	11,463,105	12,047,554	11,103,757	10,465,499	9,300,122
Other liabilities	5,776,721	5,268,581	4,562,624	4,349,456	3,985,403
Borrowings and bank overdraft	-	-	-	479,796	504,621
Total liabilities	**28,300,578**	**27,036,864**	**25,987,308**	**22,817,869**	**20,030,139**
Net assets	**6,233,113**	**6,157,189**	**5,464,882**	**4,554,231**	**3,865,638**

Report of the Independent Auditors

Report on the Financial Statements

We have audited the financial statements of Liberty Kenya Holdings Limited set out on pages 18 to 75 which comprise the Group and Company statements of financial position as at 31 December 2015, statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the Financial Statements

As stated on page 15, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the Group and Company state of financial affairs of Liberty Kenya Holdings Limited as at 31 December 2015, and of its Group and Company financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- The Company's statement of financial position and is in agreement with the books of accounts.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha - P/1610.

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers, Waiyaki Way
PO Box 40612 - 00100 Nairobi

29 March 2016

Consolidated and Company statement of profit or loss
For the year ended 31 December 2015

		Group		Company	
	Notes	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
Gross earned premium revenue	4	9,352,567	8,036,914	-	-
Less: Outward reinsurance		(3,826,733)	(3,344,429)	-	-
Net insurance premium reserve		**5,525,834**	**4,692,485**	**-**	**-**
Commissions earned		794,679	668,577	-	-
Investment income	5	1,833,886	2,968,254	370,000	230,000
Administration fees		9,101	13,764	-	-
Other income	6	108,156	(40,528)	-	-
		2,745,822	**3,610,067**	**370,000**	**230,000**
Total income		**8,271,656**	**8,302,552**	**370,000**	**230,000**
Claims and policyholder benefits	7	(4,568,813)	(2,450,981)	-	-
Change in insurance contract		(177,892)	(882,325)	-	-
Amounts recoverable from reinsurers		1,620,588	(123,155)	-	-
Net insurance benefits and claims		**(3,126,117)**	**(3,456,461)**	**-**	**-**
Commissions payable		(1,181,061)	(921,303)	-	-
Other operating expenses	8	(3,010,766)	(2,588,137)	(93,926)	(60,608)
Total expenses and commissions		**(4,191,837)**	**(3,509,440)**	**(93,926)**	**(60,608)**
Result of operating activities		**953,702**	**1,336,651**	**276,074**	**169,392**
Earnings from associates	10	-	9,918	-	-
Profit before income tax		**953,702**	**1,346,569**	**276,074**	**169,392**
Income tax expense	11	(217,652)	(197,584)	-	-
Profit for the year		**736,050**	**1,148,985**	**276,074**	**169,392**
Profit attributable to:					
Owners of the parent		675,253	1,069,964	276,074	169,392
Non-controlling interest		60,797	79,021	-	-
		736,050	**1,148,985**	**276,074**	**169,392**
Basic earnings per share	12	1.37	2.14	0.52	0.32

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Consolidated and Company statement of other comprehensive income
For the year ended 31 December 2015

	Group		Company	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
Profit for the year	**736,050**	**1,148,985**	**276,074**	**169,392**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Deferred income tax on statutory and revaluation reserve	(2,920)	(2,401)	-	-
Gains and losses on property revaluation	15,500	8,000	-	-
Total items that will not be reclassified to profit or loss	**12,580**	**5,599**	**-**	**-**
Items that may be reclassified to profit or loss:				
Foreign currency translation differences	(78,547)	(22,508)	-	-
Other comprehensive income for the year net of taxation	**(65,967)**	**(16,909)**	**-**	**-**
Total comprehensive income	**670,083**	**1,132,076**	**276,074**	**169,392**
Total comprehensive income attributable to:				
Owners of the parent	642,234	1,064,013	276,074	169,392
Non-controlling interest	27,849	68,063	-	-
	670,083	**1,132,076**	**276,074**	**169,392**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Consolidated and Company statement of Financial Position
As at 31 December 2015

		Group		Company	
	Note(s)	**2015**	**2014**	**2015**	**2014**
		Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
Ordinary share capital	13	535,707	535,707	535,707	535,707
Share premium	13	1,490,480	1,490,480	1,490,480	1,490,480
Revenue reserve		2,582,824	3,070,838	1,030,124	1,021,904
Other reserves		1,290,164	677,851	-	-
Equity attributable to equity		**5,899,175**	**5,774,876**	**3,056,311**	**3,048,091**
Non-controlling interest		333,936	382,313	-	-
Total equity		**6,233,111**	**6,157,189**	**3,056,311**	**3,048,091**
REPRESENTED BY:					
Assets					
Property and equipment	17	1,098,712	1,063,672	-	-
Intangible assets	19	86,721	37,144	-	-
Goodwill	15	1,254,995	1,254,995	-	-
Investment property	18	1,035,500	936,000	-	-
Investments in subsidiaries	10	-	-	3,202,333	3,202,333
Financial investments	16	19,064,519	19,098,156	-	-
Deferred acquisition costs		143,670	135,416	-	-
Deferred income tax	28	123,915	108,076	-	-
Receivables arising from reinsurance		484,394	489,991	-	-
Receivables arising from direct insurance		1,640,417	1,324,014	-	-
Reinsurers' share of insurance liabilities	20	2,315,330	2,103,145	-	-
Other receivables	25	435,555	335,574	-	-
Current income tax		92,787	56,108	-	-
Cash and cash equivalents	21	6,757,174	6,251,762	17,709	77,610
Total Assets		**34,533,689**	**33,194,053**	**3,220,042**	**3,279,943**
Liabilities					
Insurance contract liabilities	22	11,060,752	9,720,729	-	-
Deposit administration liabilities	23	11,463,105	12,047,554	-	-
Unearned premium reserve	24	3,004,505	2,768,235	-	-
Deferred acquisition income		88,414	73,554	-	-
Deferred income tax	28	794,888	541,887	-	-
Creditors arising from direct insurance		406,954	616,432	-	-
Creditors arising from reinsurance		618,115	337,443	-	-
Other liabilities	26	863,845	928,809	163,731	231,852
Current income tax		-	2,221	-	-
Total Liabilities		**28,300,578**	**27,036,864**	**163,731**	**231,852**
Net assets		**6,233,111**	**6,157,189**	**3,056,311**	**3,048,091**

The financial statements and the notes on pages 18 to 75, were approved by the board on the 29 March 2016 and were signed on its behalf by:

S A Mboya **M L du Toit** **G R May** **C Kioni**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Consolidated statement of changes in Equity
As at 31 December 2015

	Share capital Shs '000	Share premium Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Revaluation reserve Shs '000	Revenue reserve Shs '000	Non controlling interest Shs '000	Total equity Shs '000
Group								
Balance at 01 January 2015	**535,707**	**1,490,480**	**(38,152)**	**589,425**	**126,578**	**3,070,838**	**382,313**	**6,157,189**
Profit for the year	-	-	-	-	-	675,253	60,797	736,050
Other comprehensive income	-	-	(18,765)	(22,550)	10,850	(2,554)	(32,948)	(65,967)
Recognition of deferred income tax on revaluation surplus	-	-	-	1,730	(4,650)	-	-	(2,920)
Foreign currency translation differences	-	-	(18,765)	(24,280)	-	(2,554)	(32,948)	(78,547)
Gain on revaluation of land and buildings	-	-	-	-	15,500	-	-	15,500
Total comprehensive income for the year	**-**	**-**	**(18,765)**	**(22,550)**	**10,850**	**672,699**	**27,849**	**670,083**
Transfer between reserves	-	-	-	892,859	-	(892,859)	-	-
Other reserves	-	-	-	(250,081)	-	-	-	(250,081)
Dividends	-	-	-	-	-	(267,854)	(76,226)	(344,080)
Total contributions by and distributions to owners	**-**			**642,778**	**-**	**(1,160,713)**	**(76,226)**	**(594,161)**
Balance at 31 December 2015	**535,707**	**1,490,480**	**(56,917)**	**1,209,653**	**137,428**	**2,582,824**	**333,936**	**6,233,111**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Consolidated statement of changes in Equity
As at 31 December 2014

	Share capital Shs '000	Share premium Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Revaluation reserve Shs '000	Revenue reserve Shs '000	Non controlling interest Shs '000	Total equity Shs '000
Group								
Balance at 01 January 2014	**515,270**	**1,185,969**	**(30,842)**	**176,180**	**120,979**	**3,122,565**	**374,761**	**5,464,882**
Profit for the year	-	-	-	-	-	1,069,964	79,021	1,148,985
Other comprehensive income	-	-	(7,310)	(6,615)	5,599	2,375	(10,958)	(16,909)
Recognition of deferred income tax on revaluation surplus	-	-	-	-	(2,401)	-	-	(2,401)
Foreign currency translation differences	-	-	(7,310)	(6,615)	-	2,375	(10,958)	(22,508)
Gain on revaluation of land and buildings	-	-	-	-	8,000	-	-	8,000
Total comprehensive income for the year	**-**	**-**	**(7,310)**	**(6,615)**	**5,599**	**1,072,339**	**68,063**	**1,132,076**
Additional shares due to scrip issue	20,437	-	-	-	-	(20,437)	-	-
Transfer to share premium reserve	-	304,511	-	-	-	(304,511)	-	-
Deferred tax				(183,855)				(183,855)
Transfers to statutory reserves	-	-	-	603,715	-	(603,715)	-	-
Dividend paid	-		-	-	-	(190,322)	(60,511-	(250,833)
Other reserves	-	-	-	-	-	(5,081)	-	(5,081)
Total contributions by and distributions to owners	**20,437**	**304,511**	**-**	**419,860**	**-**	**(1,124,066)**	**(60,511)**	**(439,769)**
Balance at 31 December 2014	**535,707**	**1,490,480**	**(38,152)**	**589,425**	**126,578**	**3,070,838**	**382,313**	**6,157,189**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Company statement of changes in Equity
As at 31 December 2014

	Share capital Shs '000	Share premium Shs '000	Currency translation Shs '000	Statutory reserve Shs '000	Revaluation reserve Shs '000	Revenue reserve Shs '000	Non-controlling interest Shs '000	Total equity Shs '000
Company								
Balance at 01 January 2015	**535,707**	**1,490,480**	**-**	**-**	**-**	**1,021,904**	**-**	**3,048,091**
Profit for the year	-	-	-	-	-	276,074	-	276,074
Distribution to owners								
Dividends	-	-	-	-	-	(267,854)	-	(267,854)
Balance at 31 December 2015	**535,707**	**1,490,480**	**-**	**-**	**-**	**1,030,124**	**-**	**3,056,311**
Balance at 01 January 2014	**515,270**	**1,185,969**	**-**	**-**	**-**	**1,367,782**	**-**	**3,069,021**
Profit for the year	-	-	-	-	-	169,392	-	169,392
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**169,392**	**-**	**169,392**
Additional shares due to scrip issue	20,437	-	-	-	-	(20,437)	-	20,437
Transfer to share premium reserve	-	304,511		-	-	(304,511)	-	-
Dividend paid to the owner of the parent interest	-	-	-	-		(190,322)	-	(190,322)
Total contributions by and distributions to owners	**20,437**	**304,511**	**-**	**-**	**-**	**(515,270)**	**-**	**(190,322)**
Balance at 31 December 2014	**535,707**	**1,490,480**	**-**	**-**	**-**	**1,021,904**	**-**	**3,048,091**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Consolidated and Company statement of Cash Flows
For the year ended 31 December 2015

	Notes	Group 2015 Shs '000	Group 2014 Shs '000	Company 2015 Shs '000	Company 2014 Shs '000
Cash flows from operating activities					
Cash generated from operations	29	(508,538)	908,460	(162,047)	709
Net interest received		2,458,401	2,063,438	-	-
Income tax paid		(256,892)	(262,138)	-	-
Net cash from operating activities		**1,692,971**	**2,709,760**	**(162,047)**	**709**
Cash flows from investing activities					
Additions to property and equipment	17	(144,372)	(59,048)	-	-
Proceeds from the sale of equipment		2,058	114	-	-
Proceeds from the sale of investment property	18	-	57,000	-	-
Additions to intangible assets	19	(68,769)	(30,446)	-	-
Purchase of quoted shares	16(b(i))	(770,107)	(1,624,386)	-	-
Purchase of unquoted shares	16(b(ii))	-	(19,275)	-	-
Purchase of government securities and corporate bonds	16(a;b)	(3,632,698)	(4,336,050)	-	-
Net investment in loans and receivables	16(c)	(89,019)	(250,445)	-	-
Proceeds from sale of quoted shares	16(b(i))	852,312	265,867	-	-
Proceeds from sale of unquoted shares	16(b(ii))	(3,989)	132,428	-	-
Proceeds from sale of government securities and corporate bonds	16(a;b)	2,833,055	2,875,031	-	-
Dividend, rental and other income received		219,376	313,875	370,000	230,000
Net cash from investing activities		**(802,153)**	**(2,675,335)**	**370,000**	**230,000**
Cash flows from financing activities					
Dividend paid		(344,080)	(250,833)	(267,854)	(190,322)
Total cash movement for the year		**546,739**	**(216,408)**	**(59,901)**	**40,387**
Cash and cash equivalents at the beginning of the year		6,251,762	6,452,983	77,610	37,223
Currency translation differences		(41,326)	15,187	-	-
Total cash at end of the year	**21**	**6,757,174**	**6,251,762**	**17,709**	**77,610**

The accounting policies on pages 25 to 39 and the notes on pages 40 to 75 form an integral part of the financial statements.

Notes to the financial statements
Accounting Policies

1. Presentation of annual report and financial statements

1.1 General information

Liberty Kenya Holdings Limited is incorporated in Kenya under the Companies Act as a limited liability Company, and is domiciled in Kenya. The address of its registered office is:

LR No 209/8592/2
Liberty House, Mamlaka Road
P.O. Box 30390-00100
Nairobi

The Company was listed on the Nairobi Securities Exchange on 21 April 2011. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss in these financial statements.

1.2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below and relate to both the Company's and the Group's activities. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention, as modified by the carrying of investment property and available-for-sale investments at fair value and actuarially determined liabilities at their present value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(i) New standards, amendments and interpretations effective and adopted during the year/period
Defined benefit plans - Employee contributions (Amendments to IAS 19)

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for practical expedience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The adoption of these changes did not affect the amounts and disclosures of the Group's defined benefits obligations.

Notes to the financial statements (continued)
Accounting Policies (continued)

1.2 Summary of significant accounting policies (continued)

ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015

New standards and amendments	Effective for annual periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 Janury 2016
Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.
The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these changes will not affect the amounts and disclosures of the Group's transactions with associates or joint ventures.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.
The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's interests in joint operations.

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The amendment will not have a significant impact on the Group's financial statements as the Company does not have bearer plants.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's property, plant and equipment and intangible assets.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's interests in other entities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the Group given that it is not a first time adopter of IFRS.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's interests in other entities.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

Notes to the financial statements (continued)
Accounting Policies (continued)

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's interests in other entities.

IFRS 15 Revenue from Contracts with Customers
This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)
On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The adoption of this standard is expected to have a significant impact the financial statements of the Group.

IFRS 16: Leases
On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

- depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

Notes to the financial statements (continued)
Accounting Policies (continued)

The standard does not require a company to recognise assets and liabilities for:

- Short-term leases (i.e. leases of 12 months or less) and;
- leases of low-valueassets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The Group is assesing the potential impact on its financial statements resulting from application of IFRS 16.

b) Consolidation

(i) Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at fair value However, non-controlling interest's that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are recognised at either fair value or proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.The consolidated financial statements incorporate the financial statements of Liberty Kenya Holdings Limited and its subsidiaries, Liberty Life Assurance Company Kenya Limited, CfC Investments Limited, The Heritage Insurance Company Kenya Limited, The Heritage Insurance Company Tanzania Limited and Azali Limited. The financial statements have been made up to 31 December 2015.

(ii) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries
When the Group ceases to control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's

Notes to the financial statements (continued)
Accounting Policies (continued)

share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit or loss of an associate' in the profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates are recognised in profit or loss.

c) Insurance contracts

(i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

As a general guideline, the group defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. See accounting policy for these contracts under (f).

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

a. that are likely to be a significant portion of the total contractual benefits;
b. whose amount or timing is contractually at the discretion of the Group; and
c. that are contractually based on:

    i. the performance of a specified pool of contracts or a specified type of contract;
    ii. realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
    iii. the profit or loss of the Company, fund or other entity that issues the contract.

Insurance contracts and investment contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act.

Long term insurance business
Long-term insurance business includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business, bond investment business and business incidental to any such class of business.

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of a liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract, and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life; Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, group life and permanent health insurance policy.

General insurance business
It is insurance business of any class or classes that is not long term insurance business. Classes of general Insurance include Engineering insurance, Fire insurance – domestic risks, Fire insurance – industrial and commercial risks, Liability insurance, Marine insurance, Motor insurance – private vehicles, Motor insurance – commercial vehicles, Personal accident insurance, Theft insurance, Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above). Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class. It also includes business of effecting and carrying out contracts of insurance against risk of persons insured incurring medicalexpenses.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business, damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

(ii) Recognition and measurement

a) Premium income

For long term insurance business, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. For general insurance business, premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the un expired terms of policies in force at the financial reporting date, and is computed using the 365ths method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

b) Claims

For long term insurance business, benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of un expired insurance risk of the contracts in-force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each financial reporting date using the assumptions established at inception of the contracts.

For general insurance business, claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the financial reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

c) Commissions earned and payable and deferred acquisition costs ("DAC")

Commissions earned and payable are recognised in the period in which relevant premiums are written. A proportion of commissions' payable is deferred and amortised over the period in which the related premium is earned.

Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

Notes to the financial statements (continued)
Accounting Policies (continued)

d) Liability adequacy test
At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss as part of claims incurred.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

e) Reinsurance contracts held
The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsures, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsures are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

f) Receivables and payables related to insurance contracts and investment contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial statements.

g) Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

d) Functional currency and translation of foreign currencies

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs) rounded to the nearest thousand, which is the Group's presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial assets through other comprehensive income, are included in other comprehensive income.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

e) Revenue recognition

(i) Insurance premium revenue
The revenue recognition policy relating to insurance contracts is set out under note (c) above

(ii) Commissions
Commissions receivable are recognised as income in the period in which they are earned.

(iii) Rendering of services
Revenue arising from asset management and other related services offered by the Group are recognised in the accounting period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

These services comprise the activity of trading financial assets in order to reproduce the contractual returns that the Group's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract. Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Group charges its customers for asset management and other related services using the following different approaches:

Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and

Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

(iv) Interest income
Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised within 'investment income' (Note 5) in the profit or loss using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income
Dividend income for equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(vi) Rental income
Rental income is recognized as income in the period in which it is earned. All investment income is stated net of investment expenses.

(vii) Realised / unrealised gains and losses
Realised / unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

f) Investment contracts
The Group issues investment contracts without fixed

Notes to the financial statements (continued)
Accounting Policies (continued)

terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate). The investment contracts include funds administered for a number of retirement benefit schemes.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (i.e. the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the prepayment liability recognised for the future investment management services that the Group will render to each contract holder.

The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.
The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the financial reporting date by the unit value for the same date.

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable. For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract. Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

g) Property and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold Buildings	The shorter of the lease period or 50 years
Furniture and fittings	10 years
Motor vehicles	3 - 5 years
Computers and office equipment	4 - 5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Property and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.
Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are taken into account in determining operating profit. Buildings are revalued on an annual basis with the change credited/debited to revaluation reserves in equity.

Decreases that offset previous increases of the same asset are charged against the revaluation reserves.

On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
-
- The expenditure attributable to the software product during its development can be reliably measured.

h) Intangible assets

(i) Computer software

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed seven years.

(ii) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates. It represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

i) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reportingdate.

j) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and which are not occupied by the Group are classified as investment property. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in investment income in the profit or loss. Land held under operating lease is classified and accounted for as investment property if and only if the property meets the definition of an investment property.
On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss. Properties under construction and development sites with projected use as investment properties are valued at projected fair values taking into account current market conditions, outstanding investment costs and a risk loading according to the progress of the project.

Notes to the financial statements (continued)
Accounting Policies (continued)

k) Financial instruments

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held-for-trading.

Financial assets are designated at fair value through profit or loss when:

i. Doing so significantly reduces or eliminates a measurement inconsistency; or
ii. They form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

These assets are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statements. Financial assets at fair value through profit or loss comprise quoted shares, government securities commercial paper and corporate bonds.

(b) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held for trading and those that the Group on initial recognition designates as at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Group's receivables out of direct insurance and reinsurance arrangements, mortgage loans, loans to policy holders, deposits with financial institutions under the cash category, reinsurer's share of insurance liabilities, receivables from related parties and other receivables are classified in thiscategory.
The assets in this category had a total carrying value of Shs 1,686,259 as at 31 December 2014.The company's assets in this category at the end of the year were Shs 1,775,278.

(c) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Group to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Certain investments in government securities and corporate bonds are classified in this category. The assets in this category had a total carrying value of Shs 6,446,368 at the financial reporting date of 31 December 2014. The Company's assets in this category at the end of the year were Shs 6,529,389,.

l) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated such as:

i. significant financial difficulty of the borrower;
ii. a breach of contract, such as default or delinquency in interest or principal repayments;
iii. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwiseconsider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. the disappearance of an active market for that financial asset because of financial difficulties;
vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group,including:

- Adverse changes in the payment status of borrowers in the group; or
- National or local economic conditions that correlate with defaults on the assets in the group; or

vii. Significant or prolonged decline in the fair value of investments in equity instruments below their cost and its identification is determined by management for each identified portfolio.

Notes to the financial statements (continued)
Accounting Policies (continued)

(i) Assets carried at amortised cost

The Company assesses whether objective evidence of impairment exists for individual financial assets. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instruments fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Re-negotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(iii) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

m) Employee benefits

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the financial reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the financial reporting date is recognised as an expense accrual.

n) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently

Notes to the financial statement (continued)
Accounting Policies (continued)

stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

p) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

q) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note . The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note .

b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting date. The Group has used a discounted cash flow analysis for various financial assets that are not traded in active markets.

c) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

d) The classification of financial investments

In applying the Groups accounting policies, management has made judgement in determining the classification of financial investments as held-to-maturity, available for sale and loans and receivables in line with IAS 39. The classifications require judgement of the Group's ability and intention to hold the investments to maturity.

e) Insurance contract liabilities

It is the statutory requirement in Kenya that the insurance contract liabilities are calculated on the statutory Net Present Valuation (NPV) basis. The NPV is intended to measure the solvency of the life operation on a stable basis and examines the business from the point of view of premiums that are net of standard expense allowances the value of future net premium is compared with the cost of providing contractual policyholder benefits over the duration of the policy.

When performing the liability adequacy test, all classes for which undiscounted liabilities were calculated, a discounted cash flow model was created based on the "best estimate" assumptions. Prudent margins are added to these to project cash flows. These are then discounted at the valuation interest rate.

f) Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business, while Group specific tables are used for larger classes. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk.

g) Insurance contract liabilities

The Group bases these estimates on standard mortality tables

Notes to the financial statement (continued)
Accounting Policies (continued)

that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

An investigation into mortality experience is performed annually. The period investigation extends over the latest three full years for larger classes of business. Investigations relating to smaller classes usually extend over five years in order to gain sufficient credibility of the data. The results of the investigation are used to set the valuation assumptions, which are taken as an adjustment to the respective standard table.In setting the assumptions, provision is made for the expected increase in AIDS-related claims. In general, Actuarial Society of South Africa (ASSA) models are used to allow AIDS-related claims. The practice differs by class of business, however for major classes of business, a basic allowance for AIDS related deaths is included in the base mortality rates against which annual mortality investigations are conducted. A further discretionary margin is then held using the ASSA2000 lie model.

(i) Morbidity

The incidence of disability claims is derived from industry experience studies, adjusted where appropriate for Group Companies own experience. The same is true for the incidence of recovery from disability.

(ii) Medical

The incidence of medical claims is derived from the risk premium rates determined from annual investigations. This is adjusted where appropriate to allow for the future expected experience.

(iii) Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration and policy term. Typically the rates are higher for risk type products versus investment type products, and are higher at early durations.

(iv) Correlation

No correlations between assumptions are allowed for.

Notes to the financial statements (continued)

2. Segmental reporting

The Group is currently organised in line with the Insurance Act which classifies insurance and investment contracts into two main categories (long-term and general) depending on the duration of risk.The results of the business units are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance.The Group is required to produce segmented financial statements i.e. profit or loss and statement of financial position in compliance with IFRS 8.

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment result is based on the Group's internal reporting to management.

The geographical spread (across borders) is also used as a part of performance analysis.

a) Long term business

Includes insurance business of all or any of the following classes, namely, life assurance business, superannuation business, industrial life assurance business and bond investment business and business incidental to any such class of business;

Life assurance business means the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract), and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life and any contract securing the grant of an annuity for a term dependent upon human life;

Superannuation business means life assurance business, being business of, or in relation to, the issuing of or the undertaking of liability under superannuation, Group life and permanent health insurance policy.

b) General insurance business

Includes insurance business of any class or classes not being long term insurance business. Classes of General Insurance include Aviation insurance, Engineering insurance, Fire insurance - domestic risks, Fire insurance - industrial and commercial risks, Liability insurance, Marine Insurance, Motor insurance - private vehicles , Motor insurance - commercial vehicles, Personal accident insurance, Theft insurance ,Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

c) Major Customers

The Group does not have any one major customer that contributes more than 10 percent of its revenues

Notes to the financial statements (continued)

2. Segmental reporting (continued)

	31 December 2015		
Results by business units	**Long term business Shs '000**	**Short term business Shs '000**	**Total Shs '000**
Net insurance premium revenue	**1,919,956**	**3,605,878**	**5,525,834**
Commissions earned	71,136	723,543	794,679
Investment income	1,536,592	297,294	1,833,886
Administration fees	9,101	-	9,101
Other income	-	108,156	108,156
	1,616,829	**1,128,993**	**2,745,822**
Total income	**3,536,785**	**4,734,871**	**8,271,656**
Net insurance benefits and claims	**(1,463,493)**	**(1,662,624)**	**(3,126,117)**
Total expenses and commissions	(1,604,815)	(2,587,022)	(4,191,837)
Results of operating activities	**468,477**	**485,225**	**953,702**
Profit before income tax	468,477	485,225	953,702
Income tax expense	(31,030)	(186,622)	(217,652)
Profit for the year	**437,447**	**298,603**	**736,050**
Total assets	**23,495,801**	**11,037,888**	**34,533,689**
Property and equipment	632,466	466,246	1,098,712
Intangible assets	63,696	23,025	86,721
Investment property	810,500	225,000	1,035,500
Financial investments	16,410,041	2,654,478	19,064,519
Reinsurers' share of insurance liabilities	98,446	2,216,884	2,315,330
Other assets	5,480,652	5,452,255	10,932,907
Total liabilities	**21,355,195**	**6,945,383**	**28,300,578**
Insurance contract liabilities	8,439,043	2,621,709	11,060,752
Payable under deposit administration	11,463,105	-	11,463,105
Unearned premium reserves	171,620	2,832,885	3,004,505
Other liabilities	1,281,427	1,490,789	2,772,216
Additions to property and equipment	91,593	52,779	144,372
Additions to intangible assets	67,809	960	68,769

	31 December 2014		
	Long term Shs '000	**Short term Shs '000**	**Total Shs '000**
Net insurance premium revenue	**1,913,456**	**2,779,029**	**4,692,485**
Commissions earned	56,089	612,488	668,577
Investment income	2,304,937	663,317	2,968,254
Administration fees	13,764	-	13,764
Other income	-	(40,528)	(40,528)
	2,374,790	**1,235,277**	**3,610,067**
Total income	**4,288,246**	**4,014,306**	**8,302,552**
Net insurance benefits and claims	(2,298,532)	(1,157,929)	(3,456,461)
Total expenses and commissions	(1,379,407)	(2,130,033)	(3,509,440)
Results of operating activities	**610,307**	**726,344**	**1,336,651**
Earnings of associate	-	9,918	9,918
Profit before income tax	**610,307**	**736,262**	**1,346,569**
Income tax expense	(25,478)	(172,106)	(197,584)
Profit for the year	**584,829**	**564,156**	**1,148,985**

Notes to the financial statements (continued)

2. Segmental reporting (continued)

	31 December 2014		
	Long term Business Shs '000	Short term Business Shs '000	Total Shs '000
Total assets	**22,838,450**	**10,355,603**	**33,194,053**
Property and equipment	614,243	449,429	1,063,672
Intangible assets	7,901	29,243	37,144
Investment property	708,000	228,000	936,000
Financial investments	16,422,634	2,675,522	19,098,156
Reinsurers' share of insurance liabilities	161,406	1,941,739	2,103,145
Other assets	4,924,266	5,031,670	9,955,936
Total liabilities	**20,915,149**	**6,121,715**	**27,036,864**
Insurance contract liabilities	7,599,679	2,121,050	9,720,729
Payable under deposit administration	12,047,554	-	12,047,554
Unearned premium reserves	133,135	2,635,100	2,768,235
Other liabilities	1,134,781	1,365,565	2,500,346
Additions to property and equipment	12,029	47,019	59,048
Additions to intangible assets	346	30,100	30,446

Results by geographical spread

The Tanzania subsidiary contributed approximately 13% of the Group's 2015 consolidated income.

	31 December 2015		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	**4,815,958**	**709,876**	**5,525,834**
Commissions earned	621,137	173,542	794,679
Investment income	1,768,955	64,931	1,833,886
Administration fees	9,101	-	9,101
Other income	7,067	101,089	108,156
	2,406,260	**339,562**	**2,745,822**
Total income	**7,222,218**	**1,049,438**	**8,271,656**
Net insurance benefits and claims	**(2,794,360)**	**(331,757)**	**(3,126,117)**
Total expenses and commissions	(3,679,828)	(512,009)	(4,191,837)
Results of operating activities	**748,030**	**205,672**	**953,702**
Profit before income tax	748,030	205,672	953,702
Income tax expense	(163,972)	(53,680)	(217,652)
Profit for the year	**584,058**	**151,992**	**736,050**
Total assets	**31,378,705**	**3,154,984**	**34,533,689**
Property and equipment	1,093,403	5,309	1,098,712
Intangible assets	86,721	-	86,721
Investment property	1,035,500	-	1,035,500
Financial investments	18,541,781	522,738	19,064,519
Reinsurers' share of insurance liabilities	1,287,940	1,027,390	2,315,330
Other assets	9,331,360	1,599,547	10,932,907
Total liabilities	**25,980,435**	**2,320,143**	**28,300,578**
Insurance contract liabilities	10,384,781	675,971	11,060,752
Payable under deposit administration	11,463,105	-	11,463,105
Unearned premium reserves	2,056,422	948,083	3,004,505
Other liabilities	2,076,127	696,089	2,772,216
Additions to property and equipment	138,808	5,564	144,372
Additions to intangible assets	68,769	-	68,769

Notes to the financial statements (continued)

Results by geographical spread

The Tanzania subsidiary contributed approximately 17.2% of the Group's 2014 consolidated income.

	31 December 2014		
	Kenya business Shs '000	Tanzania business Shs '000	Total Shs '000
Net insurance premium revenue	**3,993,126**	**699,359**	**4,692,485**
Commissions earned	488,823	179,754	668,577
Investment income	2,745,191	223,063	2,968,254
Administration fees	13,764	-	13,764
Other income	1,654	(42,182)	(40,528)
	3,249,432	**360,635**	**3,610,067**
Total income	**7,242,558**	**1,059,994**	**8,302,552**
Net insurance benefits and claims	**(3,134,232)**	**(322,229)**	**(3,456,461)**
Total expenses and commissions	(2,939,172)	(570,268)	(3,509,440)
Results of operating activities	**1,169,154**	**167,497**	**1,336,651**
Earnings of associate	-	9,918	9,918
Profit before income tax	1,169,154	177,415	1,346,569
Income tax expense	(217,723)	20,139	(197,584)
Profit for the year	**951,431**	**197,554**	**1,148,985**
Total assets	**30,217,210**	**2,976,843**	**33,194,053**
Property and equipment	1,060,280	3,392	1,063,672
Intangible assets	37,144	-	37,144
Investment property	936,000	-	936,000
Financial investments	18,481,473	616,683	19,098,156
Reinsurers' share of insurance liabilities	1,819,281	283,864	2,103,145
Other assets	7,883,032	2,072,904	9,955,936
Total liabilities	**25,015,804**	**2,021,060**	**27,036,864**
Insurance contract liabilities	9,018,542	702,187	9,720,729
Payable under deposit administration	12,047,554	-	12,047,554
Unearned premium reserves	1,891,187	877,048	2,768,235
Other receivables	2,058,521	441,825	2,500,346
Additions to property and equipment	56,772	2,276	59,048
Additions to intangible assets	30,446	-	30,446

3. Management of insurance and financial risk

Liberty Kenya Holdings Limited (the Group) offers a comprehensive range of financial products and services to the retail and corporate markets, distributing tailored risk, insurance, investment, retirement and health products through its network. The Group is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of these products and services. The Group is mindful of achieving this objective in the interests of all stakeholders. The Group continues to explore opportunities to develop and grow its business organically, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits approved by the board.

The Group's main value creation activities can be summarised into the following categories:

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

i. **Providing risk cover** – Liberty Kenya Holdings Limited's core competency is to understand the life, health and asset related risk needs of individuals and Groups, and design sustainable products that provide financial security to policyholders and their families in times of death, sickness or ill health, disability and other losses.
ii. **Providing asset management services** – primarily through its subsidiaries, the Group uses its financial skills to provide competitive investment products and investment advice to a broad range of customers.

iii. **Assuming market risk** – through the management of assets backing shareholder funds and of exposures arising from asset-liability mismatches which the Group wishes to retain.

Ultimate responsibility for risk management resides with the Board which ensures that all business unit executives are responsible and are held accountable for risk management within the subsidiaries. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

a) Risk management objectives
The Group's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements of the Kenyan Insurance Act, and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis given the limits in place.

b) Capital management
The capital management strategy seeks to ensure that the Group is adequately capitalised to support the risks assumed by the Group in accordance with the Group's risk appetite. It further seeks to fund working capital and strategic requirements, thereby protecting policyholder and customer interests while optimising shareholder risk adjusted returns and delivering in accordance with the Group's dividend policy.
Due to varying requirements of different stakeholders, the Group reports and manages capital on a number of different bases. The capital management process ensures that the Group's available capital exceeds the capital required both currently and going forward and to ensure that the Group has unfettered access to its capital at all times to meet its requirements.

(i) Company
The Company's objective in capital management is to safeguard the Company's ability to continue as going concern in order to provide returns for share holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

Total capital is calculated as equity plus net debt.

		2015 Shs '000	2014 Shs '000
Total borrowings	26	163,731	231,852
Due from group companies	26	(122,268)	(163,918)
Net borrowings	-	41,463	67,934
Less: Cash and cash equivalents	21	(17,709)	(77,610)
Net debt	-	23,754	(9,676)
Total equity	-	3,056,311	3,048,091
Gearing ratio	-	0.78%	(0.32)%

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

(ii) Group
The Board of Directors at the subsidiary Companies are responsible for monitoring and ensuring compliance with the regulatory framework as established by the Kenyan and Tanzanian Insurance Regulatory Authorities.

The subsidiaries are regulated by the Kenyan Insurance Act, the Tanzanian Insurance Act, Companies Act, Retirement Benefit Authority and Insurance Regulatory Authority. The objectives when managing capital are to:

- Comply with the capital requirements as set out in the Insurance Act;
- Comply with regulatory solvency requirements as set out in the Insurance Act;
- Safeguard the companies' ability to continue as going concerns, so that they can continue to provide returns to shareholders and benefits for other stakeholders; and
- Provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

(iii) The Kenyan Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows;

	Regulatory requirement Shs '000	Liberty Life Assurance Shs '000	Heritage Insurance (Kenya) Shs '000
General insurance business	300,000	-	500,000
Long term insurance business	150,000	612,430	-

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 15% of the net premium income during the preceding financial year.

Long-term insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 5% of total admitted liabilities.

- The Tanzanian Insurance Act requires each insurance Company to hold the minimum level of paid up capital as follows;
- Composite insurance companies TShs 1,000 million
- General insurance business companies TShs 500 million and
- Long term insurance business companies TShs 500 million

As at year end, the Heritage Insurance Company (T) Limited had a total of 100,000 ordinary shares with a par value of Tsh. 100,000 of which 60,000 share capital were issued and fully paid. (2014: 60,000 with a par value of Tshs 100,000 each) This was in excess of the minimum requirement.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

(iv) Solvency margin

The solvency margins of the subsidiaries as at 31 December 2015 and 31 December 2014 are set out below:

Liberty life assurance

	Long-term business 2015 Shs '000	Long-term business 2014 Shs '000
Admitted assets	23,453,598	22,719,615
Admitted liabilities	(21,787,815)	(20,915,148)
Solvency margin	**1,665,783**	**1,804,467**
Required margin	**1,089,391**	**1,045,757**
Coverage ratio	**1.53**	**1.73**

Heritage Insurance Company Kenya Limited

	short-term business 2015 Shs '000	Short-term business 2014 Shs '000
Total admitted assets	5,016,544	4,868,495
Total admitted liabilities	(4,414,210)	(4,040,049)
Add: 15% of previous year's net premium income	(313,052)	(290,462)
Total liabilities and minimum requirement	(4,727,262)	(4,330,511)
Solvency margin	**289,282**	**537,984**
Required margin	**313,052**	**290,462**
Coverage ratio	**0.92**	**2.85**

Heritage Insurance Company Tanzania Limited

	1,619,191	1,502,276
Total admitted liabilities	(1,204,339)	(1,068,154)
Add: 15% of previous year's net premium income	(139,083)	(146,764)
Total liabilities and minimum requirement	(1,343,422)	(1,214,918)
Solvency margin	**275,769**	**287,358**
Required margin	**139,083**	**146,764**
Coverage ratio	**2.98**	**2.96**

c.) Credit risk

Definition

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is a function of exposure at default and probability of default and comprises default, settlement and spread risk.

- Default risk is the risk of credit loss as a result of failure by counterparty to meet its financial and/or contractual obligations. It has three components:

  - **Issuer risk:** the exposure at default (EAD) arising from traded credit products.
  - **Primary credit risk:** the EAD arising from lending and related product activities. Primary credit risk generally refers to non-tradable, illiquid or hold-to-maturity credit risk.

Settlement risk is the risk of loss from a transaction settlement, where value is exchanged, failing which the counter value is not received in whole or part.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

Spread risk (also known as credit migration risk) is the result of changes to spreads due to changing circumstances (micro and macro). It is the risk that a portfolio or counterparty's credit quality will materially deteriorate over time without allowing for a repricing of the exposure to compensate for the higher probability of default risk being carried.

Key activities that result in the origination of credit risk are:

- financial asset instruments including debt instruments (including bonds, loans and term deposits and investment policies);
- reinsurance assets including amounts due from reinsurers in respect of claims already paid;
- certain debtor accounts within the financial position categories of prepayments, insurance and other receivables;
- rental due where tenants have signed lease contracts for space within the Group's investment properties;
- cash and cashequivalents.

Counterparty types to which the Group is exposed to credit risk include sovereigns (governments), state owned enterprises, financial institutions and corporate entities. In addition, the Group is also exposed to credit risk through investment in securitisation issuance, mutual funds and investment policies.

Reinsurance assets

Reinsurance is used to manage insurance risk and consequently, in the liability valuation process, reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge the Group's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised.

Creditworthiness is assessed when appointing reinsurers. Financial position strength, performance, track record, relative size and ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is continuously done.

Furthermore, to mitigate credit exposures to reinsurers, reassurance management performs the following annual checks on reinsurers:

- Copies of reinsurers' claim paying abilities, as assessed by reputable rating agencies, and copies of valuators' certificates are obtained and analysed;
- Meetings and administration process audits are conducted with reinsurers with whom the Group has larger exposures; and
- Reinsurance agreements are reviewed and amended as appropriate with accurate and complete records kept up to date.

Insurance and other receivables

The Group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue agents, brokers and intermediaries from conducting further business with Liberty Kenya Holdings Limited. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Credit assessment changes recognised in the income statement

Fair value instruments

The Group invests in both listed and unlisted debt instruments. Changes to credit spreads for listed instruments are based on available market information and/or a proxy (where appropriate), combined with management input and override depending on the liquidity of the listed asset. Unlisted financial assets are generally not actively traded and changes to the credit spread for these instruments are fair valued with reference to proxy listed assets (where appropriate), combined with management input and override, market research and other compelling evidence which is all collated to form a view on current value.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

Mortgages and loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's investment balance. The mortgages and loans are recoverable through offset against their respective liabilities (policy benefits) at policy maturity date.

The impairment loss is determined on an incurred loss approach as the difference between the instrument's carrying value and the present value of the asset's estimated future cash flows, including any recoverable collateral, discounted at the instrument's original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2015 is made up as follows:

Maximum exposure to credit risk before collateral held

	Group		Company	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
Financial investments	19,064,519	19,098,156	-	-
Receivables arising from reinsurance	484,394	489,991	-	-
Receivables arising from direct insurance	1,640,417	1,324,014	-	-
Reinsurers' share of insurance liabilities	2,315,330	2,103,145	-	-
Other receivables	435,555	335,574	-	-
Cash and bank balances	6,757,174	6,251,762	17,709	77,610
	30,697,389	**29,602,642**	**17,709**	**77,610**

None of the above assets are past due or impaired except for insurance receivables (which are due upon invoicing):

	Group	
	2015 Shs '000	2014 Shs '000
Neither past due or impaired	221,623	1,030,163
Past due but not impaired	1,418,794	293,851
Impaired	319,716	215,967
Gross	**1,960,133**	**1,539,981**
Less: allowance for impairment	(319,716)	(215,967)
Net	**1,640,417**	**1,324,014**
Past due but not impaired:		
- by up to 30 days	422,876	58,097
- by 31 to 60 days	225,528	90,288
- by 61 to 150 days	770,390	131,437
- by 151 to 360 days	-	14,029
Total past due but not impaired	**1,418,794**	**293,851**

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

Consideration of own credit risk for financial liabilities measured at fair value through profit or loss

Liberty Kenya Holdings Limited has considered the impact of changes in credit risk in the fair value measurement of its policyholder investment contract liabilities. Credit risk changes will only have a significant impact in extreme circumstances, when the Group's ability to fulfil the contract terms is considered to be under threat.

The Group remains well capitalised and accordingly no adjustment to the valuation for credit risk has been made for the years under review.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

d) Operational risk

Definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. Operational risk is therefore pervasive across all financial institutions and all other operational companies.

Operational risk is recognized as a distinct risk category which the Group strives to manage within acceptable levels through sound operational risk management practices. The Group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organizational maturity and particular business environments.

Executive management defines the operational risk appetite at a Group and subsidiary level. This operational risk appetite supports effective decision-making and is central to embedding effective risk management. The objective in managing operational risk is to increase the efficiency and effectiveness of the Group's resources, minimize losses and utilize opportunities.

Ownership and accountability

Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also management's responsibility to report any material operational risks, risk events and issues identified to senior management through certain pre-defined escalationprocedures.

Risk identification, assessment and measurement

The process of operational risk management starts with the operational risk assessment of identified areas. Consideration is then given to the need for a Group or business unit policy to define the approach to mitigating this risk.

Risk and compliance policies are developed where necessary to:

- ensure compliance with internal principles and with legal and regulatory requirements;
- address associated risks in the business, define roles, responsibilities and expectations at all levels;
- guide staff at all levels on how to conduct Group's business;
- ensure that staff apply consistent processes throughout the Group; and
- help management to develop operatingprocesses.

Policies are approved at the appropriate governance level subject to compliance with Group policy principles. Once identified, operational risks are assessed to determine the potential impact to the Group should the risk events occur, and reviewed against the Group's risk appetite. Mitigating actions are developed for any operational risks that fall outside of management's assessment of risk appetite.

Risk management activities in relation to operational risks include but are not limited to:

Information Technology (IT) risk:

The Group is highly dependent on and constantly increasing its use of information technology to ensure improved operations and customer service. The Group's IT systems enable it to take its products to markets across the East African Region and so carry out its expansion strategy.

The Group is, therefore, exposed to various IT risks which include the disruption of transaction processing, information loss and/or malicious attacks from third parties.

Maintaining technological advantage requires a strong IT risk management culture and function that allows the Group to identify and manage IT risks effectively. In order to prevent potential risk events and ensure best practice levels of continuous IT service and security, management review and ensure compliance with relevant IT policies and procedures, conduct control and risk self-assessments and are subject to internal and external audits.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

Process risk: The Group's approach to process improvement focuses on process efficiency and work quality. The processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders and Group finance.

Regulatory risk: The regulatory environment is monitored closely to ensure that the Group implements new or amended legislation requirements promptly to ensure compliance and avoid unnecessary fines and penalties or the revocation of any business license.

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the Group and a compliance policy. The policy ensures that compliance requirement are identified and implemented through the development of approriate policies and procedures and that regular monitoring and reporting of breaches is carried out within the business and at the center to provide the board with assurance on the status of compliance within the organization.

Human resources: The Group remains concerned about the availability of specialist technical skills available in East Africa to provide first world financial services. It focuses on recruitment, development and retention through a number of Group-wide initiatives.

Business continuity management (BCM): BCM is implemented to reduce the risk of not continuing normal business activities should a crisis occur. BCM is an integral component of the Group's risk management framework. The various subsidiaries are regularly exposed to deployment of updated methodologies, testing and training to ensure increased capability to deal with interruptions to business. The Group's has established a BCM site at Mlolongo along Mombasa road where critical staff and core services can be relocated incase of disruptions to business at the usual business premises.

Internal and external fraud: The Group adopts a 'zero-tolerance' approach to fraud. The Group internal audit function supports management in meeting their objective of minimising fraud risk. In terms of the Group's anti- fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

e) Liquidity risk Definition

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the Group.

This might arise in circumstances where the Group's assets are not marketable, or can only be realised at excessive cost. The principal risk relating to liquidity comprises the Group's exposure to policyholder behaviour.

Ownership and accountability

The ownership and accountability for liquidity risk is the same as for market risk. Liquidity requirements are reviewed on an ongoing basis as part of the Group's normal operating activities at the subsidiary level.

Liquidity profile of assets

The Group's assets are liquid however given the quantum of investments held relative to the volumes of trading a substantial short-term liquidation may result in current values not being realised due to demand-supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Liquidity risks arising out of obligations to policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised. Similarly the liquidity and asset-liability matching risk arising from a change in withdrawal experience on business with DPF is limited through policy terms and conditions that permit withdrawal benefits to be altered in the event of falling asset prices.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

The table below presents the cash flows receivable and payable by the Group under financial assets and liabilities by remaining expected maturities at the reporting date.

As at 31 December 2015 **Liabilities**	**1 - 3 months Shs '000**	**3 - 12 months Shs '000**	**1 - 5 years Shs '000**	**Over 5 years Shs '000**	**Total Shs '000**
Insurance contract liabilities	1,349,449	1,017,072	1,103,610	7,590,621	11,060,752
Payable under deposit	-	(37,472)	1,432,999	10,067,578	11,463,105
Creditors arising from reinsurance	49,307	568,808	-	-	618,115
Creditors arising from direct insurance	-	406,954	-	-	406,954
Other payables	599,458	245,102	19,285	-	863,845
Total financial liabilities	**1,998,214**	**2,200,464**	**2,555,894**	**17,658,199**	**24,412,771**
Assets					
Other receivables	177,480	-	-	-	177,480
Reinsurers' share of insurance liabilities	-	2,315,330	-	-	2,315,330
Receivables arising from reinsurance	-	484,394	-	-	484,394
Financial investment	4,769,925	1,404,020	5,739,208	7,151,366	19,064,519
Receivable arising from direct insurance	870,027	770,390	-	-	1,640,417
Cash and cash equivalents	6,757,174	-	-	-	6,757,174
Total financial assets	**12,574,606**	**4,974,134**	**5,739,208**	**7,151,366**	**30,439,314**
Net liquidity gap	**10,576,392**	**2,773,670**	**3,183,314**	**(10,506,833)**	**6,026,543**

As at 31 December 2014	**1 - 3 months Shs '000**	**3 - 12 months Shs '000**	**1 - 5 years Shs '000**	**Over 5 years Shs '000**	**Total Shs '000**
Liabilities					
Insurance contract liabilities	582,959	1,469,620	992,362	6,675,788	9,720,729
Payable under deposit	-	(39,382)	1,506,061	10,580,875	12,047,554
Creditors arising from reinsurance	33,265	304,178	-	-	337,443
Creditors arising from direct	-	616,432	-	-	616,432
Other payables	916,343	12,466	-	-	928,809
Total financial liabilities	**1,532,567**	**2,363,314**	**2,498,423**	**17,256,663**	**23,650,967**
Assets					
Other receivables	128,929	-	-	-	128,929
Reinsurers' share of insurance	-	2,045,081	33,478	24,586	2,103,145
Receivables arising from direct	128,733	292,101	69,157	-	489,991
Cash and cash equivalents	3,658,288	1,613,015	5,969,358	7,857,495	19,098,156
Receivable arising from direct insurance	1,066,639	257,375	-	-	1,324,014
Cash and cash equivalents	4,418,875	1,832,887	-	-	6,251,762
Total financial assets	**9,401,464**	**6,040,459**	**6,071,993**	**7,882,081**	**29,395,997**
Net liquidity gap	**7,868,897**	**3,677,145**	**3,573,570**	**(9,374,582)**	**5,745,030**

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

Long term insurance and deposit administration contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated surrenders before the contractual maturity dates. In addition, the Group invests only a limited proportion of its assets in investments that are not actively traded. The Group's listed securities are considered readily realisable, as they are actively traded on the Nairobi Stock Exchange.

Liquidity risk – Company

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by continuous monitoring of banking facilities, cash flow forecast and actual cash flows. The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows:

At 31 December 2015	Less than 1 year Shs '000	Over 1 year Shs '000	Total Shs '000
Due to group companies (note 30)	122,268	-	122,268
Borrowings	-	-	-
	122,268	**-**	**122,268**
At 31 December 2014	**Less than 1 year Shs '000**	**Over 1 year Shs '000**	**Total Shs '000**
Due to group companies (note 30)	163,918	-	163,918
Borrowings	-	-	-
	163,918	**-**	**163,918**

Capital requirements

The Group's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. The liquidity risk arising from withdrawals is largely managed by policy terms and conditions in the contract that enable the Group to reduce withdrawal benefits in the event that asset prices fall. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they falldue.

As a result of the liquidity risk mitigation measures in place, the Group's exposure to liquidity risk is expected to be small and no allowance is currently made for liquidity risk.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

f) Market risk

Definition

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in equity prices, interest rates and foreign currency exchange rates (as well as their associated volatilities). In addition, in light of the Group's significant investment in investment properties, there is exposure to fluctuation in property values.

The Group's shareholders are exposed to market risk arising from policyholder asset-liability mismatch risk. This is where the Group's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts.

The key components of market risk are as follows:

- **Price risk:** is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of securities price and/or dividend changes;
- **Interest rate risk:** is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of interest rate changes;
- **Currency risk:** is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, or on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the Group; and
- **Property market risk:** is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested. In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together. The Group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

The Group assesses its asset-liability mismatch exposures with respect to the key components of market risk at subsidiary level.

i) Price risk

- The Group is exposed to equity securities price risk because of investments in quoted and unquoted shares classified as available-for-sale.
- The Group is not exposed to commodity price risk.
- To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group in the Investment Policy. All quoted shares held by the Group are traded on the Stock Exchange.

ii) Interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cash flow interest rate risk. The Group's fixed interest rate financial instruments are government securities and deposits with financial institutions. The Group's variable interest rate financial instruments are quoted corporate bonds. No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The group manages it's cash flow interest rate risk by diversification of it's portfolio. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1% (2014: 1 %). Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates. At 31 December 2015, if interest rates on quoted corporate bonds at that date had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the period would have been Shs. 13,068 (2014: Shs 1,379,330) lower/higher, mainly as a result of higher/lower interest income on floating rate quoted corporate bonds.

g) Currency risk

The Group operates regionally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from reinsurance transactions with foreign reinsurance brokers. This risk is not significant and is mitigated

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

through the use of dollar-denominated accounts. In the year ending 31 December 2015, the Group had an equivalent of Shs. 13.7 Million (2014: Shs. 7.7 Million) in reinsurance balances denominated in foreign currency and foreign currency deposit accounts. The impact of normal exchange fluctuations in the Kenya and Tanzania shilling against the US dollar would not have a material effect on Groups results.

Property market risk

The Group is exposed to tenant default and unlet space within its investment property portfolio affecting property values and rental income. This risk is mainly attributable to the matching policyholder liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multi-tenanted buildings significantly reduce the exposure to this risk.

h) Insurance risk

Definition:Insurance risk from management's perspective is the risk that future claims (in relation to death, disability, ill health and withdrawal) and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing.

In addition to these insurance risks, the Group assumes further risks in relation to policyholder behaviour (including lapses and converting recurring premium policies to paid up) and tax which could have adverse impacts on the Group's earnings and capital if different from that assumed in the measurement of policyholder liabilities. From a risk management perspective, management Groups these risks under insurance risk.

Ownership and accountability

The management and staff in all subsidiaries taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

The statutory actuaries and the heads of risk in the subsidiaries provide independent oversight of the compliance with the Group's risk management policies and procedures and the effectiveness of the Group's insurance risk management processes.

Risk identification, assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are conducted at least annually on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities. Insurance risks are assessed and reviewed against the risk appetite. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

Risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

The statutory actuaries provide oversight of the insurance risks undertaken by the Group in that they are required to:
report at least annually on the financial soundness of the life companies within the Group; approve policy for assumptions used to provide best estimates plus compulsory and discretionary margins

- oversee the setting of these assumptions; and
- report on the actuarial soundness of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

The Group makes use of reinsurance to reduce its exposures to some insurance risks.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

i) Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to actual policyholder behaviour being different from expected.

The primary policyholder behaviour risk is persistency risk. This arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total when this is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital.

Deterioration in persistency generally gives rise to a loss as the loss of these future charges generally exceeds the charges that the Group applies to the policyholder benefits in these events.

ii) Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life assurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected. The Group has the following processes and procedures in place to manage mortality and morbidity risk:

- Premium are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience.
- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period. Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases may reduce their mitigating effects.

Furthermore, charges can only be increased to the extent that they can be supported by gross premiums, although this is not relevant on contracts where gross premiums can be reviewed.

- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All retail business applications for risk cover are underwritten. For smaller sums assured this process is largely automated. For retail and corporate business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For corporate risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured.
- Part of the underwriting process involves assessing the health condition and family medical history of applicants. Terms and conditions are varied accordingly.
- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss (e.g. on life policies, a suicide exclusion applies to the sum assured for death within two years from the date of issue).
- The actual claims experience is monitored on a regular basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis, but mortality claim ratios are reviewed monthly.
- For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.

- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

The Group views mortality and morbidity risks as risks that are core to the business.

iii) Longevity risk

Longevity risk is the risk of loss arising due to annuitants living longer than expected. For life annuities, the loss arises as a result of the Group having undertaken to make regular payments to policyholders for their remaining lives, and possibly to the policyholders' spouses for their remaining lives. The most significant risk on these liabilities is continued medical advances and improvement in social conditions that lead to longevity improvements being better than expected.

The group manages longevity risk by:

- Annually monitoring the actual longevity experience and identifying trends over time; and
- Making allowance for future mortality improvements in the pricing of new business and the measurement of policyholder liabilities - this allowance will be based on the trends identified in experience investigations and external data.

Notes to the financial statements (continued)

iv) Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected.

Allowance is made for expected future expenses in the measurement of policyholder liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

The group manages the expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business;
- regularly monitoring withdrawal rates including lapses; and
- implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in in- force policies.

v) Tax risk

Tax risk is the risk of loss arising due to the actual tax assessed being more than the tax expected. Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial reporting date. Adjustments may be made for known future changes in the tax regime.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy:

Notes to the financial statements (continued)

Year ended 31 December 2015		**Shs 0m to Shs 15m**	**Shs 15m to Shs 250m**	**Shs 250m to Shs 1,000**	**Total (Shs '000)**
(Shs '000)					
General insurance business					
Personal accident	Gross	13,816,149	164,105,434	3,352,168	181,273,751
	Net	6,588,768	95,280,925	2,953,468	104,823,161
Motor	Gross	36,129,970	1,217,588	-	37,347,558
	Net	34,880,946	1,217,588	-	36,098,534
Fire	Gross	30,646,693	89,903,890	572,380,993	692,931,576
	Net	24,377,398	63,714,350	18,434,300	106,526,048
Other	Gross	43,145,979	187,708,307	401,632,023	632,486,309
	Net	31,977,011	110,317,307	2,495,646	144,789,964
	Gross	**123,738,791**	**442,935,219**	**977,365,184**	**1,544,039,194**
	Net	**97,824,123**	**270,530,170**	**23,883,414**	**392,237,707**
Life assurance business					
Ordinary life	Gross	23,577,693	328,970	-	23,906,663
	Net	23,175,446	-	-	23,175,446
Annuity	Gross	26,246,140	-	-	26,246,140
	Net	26,246,140	-	-	26,246,140
Group life	Gross	206,516,672	46,378,132	1,892,279	254,787,083
	Net	143,468,526	-	-	143,468,526
Total	**Gross**	**256,340,505**	**46,707,102**	**1,892,279**	**304,939,886**
	Net	**192,890,112**	**-**	**-**	**192,890,112**

Notes to the financial statements (continued)

		Group			
Year ended 31 December 2014		**Shs 0m to Shs 15m**	**Shs 15m to Shs 250m**	**Shs 250m to Shs 1,000**	**Total (Shs '000)**
(Shs '000)					
General insurance business					
Personal accident	Gross	1,124,534	13,363,772	3,428,899	17,917,205
	Net	1,093,529	12,727,772	2,897,899	16,719,200
Motor	Gross	24,258,930	924,447	-	25,183,377
	Net	22,314,171	924,447	-	23,238,618
Fire	Gross	37,322,550	77,139,485	566,146,242	680,608,277
	Net	37,232,426	66,894,225	14,780,987	118,907,638
Other	Gross	32,496,989	34,363,730	162,340,929	229,201,648
	Net	30,613,875	69,002,865	827,999	100,444,739
	Gross	**95,203,003**	**125,791,434**	**731,916,070**	**952,910,507**
	Net	**91,254,001**	**149,549,309**	**18,506,885**	**259,310,195**
Life assurance business					
Ordinary life	Gross	22,014,895	307,165	-	22,322,060
	Net	21,639,310	-	-	21,639,310
Group life	Gross	100,341,867	52,871,038	384,964	153,597,869
	Net	77,613,210	8,873,031	3,465	86,489,706
Total	**Gross**	**122,356,762**	**53,178,203**	**384,964**	**175,919,929**
	Net	**99,252,520**	**8,873,031**	**3,465**	**108,129,016**

The concentration by sector or maximum insured loss at the end of the period is broadly consistent with the prior year.

i) Fair value hierarchy Introduction

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. IFRS 7 and IFRS 13 requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Nairobi Securities Exchange, or an international stock or bond exchange.

Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.

Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

Notes to the financial statements (continued)

3. Management of insurance and financial risk (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Group			
31 December 2015 **Fair value through profit and loss financial assets**	**Level 1 Shs '000**	**Level 2 Shs '000**	**Level 3 Shs '000**	**Total Shs '000**
Quoted shares	3,065,010	-	-	3,065,010
Unquoted shares	-	-	42,660	42,660
Government securities and bonds	-	7,652,182	-	7,652,182
Investment property	-	1,035,500	-	1,035,500
Buildings	-	868,162	-	868,162
	3,065,010	**9,555,844**	**42,660**	**12,663,514**

31 December 2014 **Fair value through profit and loss financial assets**				
Quoted shares	3,830,414	-	-	3,830,414
Unquoted shares	-	-	42,341	42,341
Government securities and bonds	-	7,092,774	-	7,092,774
Investment property	-	936,000	-	936,000
Buildings	-	780,926	-	780,926
	3,830,414	**8,809,700**	**42,341**	**12,682,455**

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	**2014 Shs '000**	**2015 Shs '000**	**2014 Shs '000**
4. Gross earned premium revenue				
Motor	1,731,232	1,314,483	-	-
Fire	1,516,293	1,562,197	-	-
Personal accident and Medical	1,986,755	1,888,025	-	-
Retail Life	-	1,417,698	-	-
Group life	754,527	613,981	-	-
Others	3,353,760	1,240,530	-	-
	9,352,567	**8,036,914**	**-**	**-**
5. Investment income				
Interest on Government securities	1,339,818	1,225,948	-	-
Interest on bank deposits	673,515	498,697	-	-
Interest from corporate bonds and commercial paper	323,688	216,550	-	-
Interest on loans and receivables	22,870	33,157	-	-
Rental income from investment property	133,810	111,454	-	-
Gain /(loss) on sale of financial investments	(850,391)	203,421	-	-
Fair value gain on investment property	126,500	154,432	-	-
Interest on policy loans	98,510	89,086	-	-
Dividend income	91,763	96,664	370,000	230,000
Others	(6,197)	338,845	-	-
Impairment of financial assests	(120,000)	-	-	-
	1,833,886	**2,968,254**	**370,000**	**230,000**

The Company's dividend income of Shs 370 million (2014 : Shs 230 million) was earned from the subsidiaries in the year.

6. Other income/ (loss)				
Profit from Kenya Motor Insurance Pool	2,597	960	-	-
Foreign exchange gain	101,089	-	-	-
Miscellaneous income	4,470	694	-	-
Loss on sale of investment in associate	-	(42,182)	-	-
	108,156	**(40,528)**	**-**	**-**
7. Claims and other policy holder benefits payable				
Motor	893,666	581,815	-	-
Fire	645,596	(1,011,966)	-	-
Personal accident and Medical	1,066,245	260,251	-	-
Death, maturity and surrender benefits	1,422,538	1,143,661	-	-
(Decrease)/ increase in policy liabilities	(63,207)	371,025	-	-
Others	603,975	1,106,195	-	-
	4,568,813	**2,450,981**	**-**	**-**

Heritage Insurance Company Tanzania Limited reversed a huge claim provision which effectively reduced the fire claims expenses significantly resulting into a recovery in relation to 2014.

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	**2014 Shs '000**	**2015 Shs '000**	**2014 Shs '000**
8. Other operating expenses				
Staff costs	1,181,721	1,038,321	-	-
Directors' fees	14,502	18,066	2,864	2,714
Auditors remuneration	23,403	16,500	2,392	2,200
Property, plant and equipment	98,696	92,174	-	-
Intangible assets	19,192	11,211	-	-
Advertising	90,257	115,436	-	-
Legal and other professional fees	8,294	72,424	2,382	8,852
Impairment charge for doubtful receivables	110,791	67,514	-	-
Others	1,235,292	959,935	86,288	46,842
Repairs and maintenance	46,861	31,599	-	-
Operating lease rental - land and buildings	181,767	164,957	-	-
	3,010,776	**2,588,137**	**93,926**	**60,608**

9. Staff costs

Employee benefits expense includes the following:

Salaries and wages	841,178	744,594	-	-
Social security benefits	46,051	47,559	-	-
Bonus	24,143	9,985	-	-
Other staff emoluments	175,387	63,244	-	-
Staff bonus	12,703	100,610	-	-
Contribution to different pension plans	459	-	-	-
Group life and medical	81,800	72,329	-	-
	1,181,721	**1,038,321**	**-**	**-**

The number of persons employed by the Group at the end of the year was 380 (2014 : 366).

10. Investment in subsidiaries and associates

As at 1 January	-	70,041
Share of profit/(loss) after tax	-	9,918
Disposal of investment in Strategis Insurance (Tanzania) Limited	-	(80,069)
Currency adjustment	-	110
As at 31 December	**-**	**-**

The disposal of the Group's interest in Strategis Insurance (Tanzania) Limited in 2014 realised a loss of Shs. 80,069,000.

Company

The Company's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the Company, were as follows:

Name of company	**Country of incorporation**	**Beneficial Ownership 2015**	**Beneficial Ownership 2014**	**Carrying amount 2015**	**Carrying amount 2014**
Liberty Life Assurance Kenya Limited	Kenya	100%	100%	1,826,254	1,826,254
The Heritage Insurance Company (K) Limited	Kenya	100%	100%	741,287	741,287
The Heritage Insurance Company (T) Limited	Tanzania	60%	60%	-	-
Azali Limited	Kenya	100%	100%	-	-
CfC Investments Limited Kenya		100%	100%	634,792	634,792
				3,202,333	**3,202,33**

Notes to the financial statements (continued)

11. Income tax expense

Major components of the tax expense

The Group's current tax charge is computed in accordance with income tax rules applicable to insurance companies. A reconciliation of the tax charge is shown below:

	Group		Company	
	2015 Shs '000	**2014 Shs '000**	**2015 Shs '000**	**2014 Shs '000**
Current income tax	228,010	262,538	-	-
Over-provision of deferred tax in prior years	7,212	(25,332)	-	-
Deferred income tax	(17,570)	(39,622)	-	-
	217,652	**197,584**	**-**	**-**

12. Reconciliation of the tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

Reconciliation of income tax expense to tax based on accounting profit.

Profit before income tax	**953,702**	**1,346,569**	**276,074**	**169,392**
Tax at statutory rate of 30% (2014: 30%)	286,111	403,971	82,822	50,818
Tax effect of:				
Income not subjected to tax	(159,936)	(227,487)	(82,822)	(50,818)
Tax effect of interest income	39,734	-	-	-
Prior year tax (over) provision	7,212	(25,332)	-	-
Expenses not deductible for tax purposes	45,031	56,351	-	-
Income from associates	-	(9,918)	-	-
Capital gains tax @ 5%	(500)	-	-	-
Income tax expense	**217,652**	**197,585**	**-**	**-**

There was no tax charge relating to components of other comprehensive income.

Earnings per share

Basic earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

Earnings for the purpose of basic earnings per share	736,050	1,148,985	276,074	169,392
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	535,707	535,707	535,707	535,707
Basic earnings per share				
Earnings per share (Shs) basic and diluted	1.37	2.14	0.52	0.32

There were no potentially dilutive shares outstanding as at 31 December 2015 or 2014. Diluted earnings per share are therefore the same as basic earnings per share.

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	**2014 Shs '000**	**2015 Shs '000**	**2014 Shs '000**
13. Ordinary share capital and share premium				
Authorised number of shares				
535, 707, 499 ordinary shares with a per value of Shs 1 per share	535,707	515,270	535,707	515,270
20,437,135 Additional shares due to scrip issue	-	20,437	-	20,437
As at 31 December	**535,707**	**535,707**	**535,707**	**535,707**
Issued share capital				
535, 707, 499 ordinary shares with a per value of Shs 1 per share	535,707	515,270	535,707	515,270
20,437,135 Additional shares due to scrip issue	-	20,437	-	20,437
	535,707	**535,707**	**535,707**	**535,707**
Share premium:				
As at 1 January	1,490,480	1,185,969	1,490,480	1,185,969
Share capital bonus issue	-	304,511	-	304,511
As at 31 December	**1,490,480**	**1,490,480**	**1,490,480**	**1,490,480**

All ordinary shares rank equally with regard to theCompany's residual assets, are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company.

14. Revenue and other reserves				
Statutory reserve	1,209,653	589,425	-	-
Revaluation reserve	137,428	126,578	-	-
Currency translation reserve	(56,917)	(38,152)	-	-
Total other reserves	**1,290,164**	**677,851**	**-**	**-**
Revenue reserve	2,582,824	3,070,838	1,030,124	1,021,904
At end of year	**3,872,988**	**3,748,689**	**1,030,124**	**1,021,904**

Other reserves include fair value reserve arising from revaluation surplus on buildings and freehold land, which is a non- distributable reserve, and statutory reserve. Currency translation reserve represents exchange rate differences arising on the translation of the foreign subsidiary. Statutory reserve represents:

a. Accumulated surpluses from the life fund whose distribution is subject to the restrictions imposed by the Kenyan Insurance Act. The Insurance Act limits the amounts of surpluses of the life business available for distribution to shareholders to 30% of the accumulated surplus of the life business. A transfer to or from retained earnings is recorded each year to ensure that only amounts available for distribution to shareholders are held in the retained earnings.

b. A contingency reserve is maintained by the Tanzania subsidiary as required by the Tanzania Insurance Act. The reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit. This reserve shall accumulate until it reaches the minimum paid-up share capital or 50% of the net premiums, whichever is greater.

Proposed dividends

The Directors do not recommend payment of a dividend (2014: Shs 0.50 per share).

Notes to the financial statements (continued)

	Group 2015 Shs '000	Group 2014 Shs '000	Company 2015 Shs '000	Company 2014 Shs '000
15. Goodwill				
Cost				
As at 1 January	1,254,995	1,254,995	-	-
As at 31 December	**1,254,995**	**1,254,995**	**-**	**-**

For the purpose of impairment testing, goodwill is allocated to the subsidiary which represents the lowest level within the group at which the goodwill is monitored for internal management purpose. Each subsidiary to which goodwill has been allocated is tested for impairment at least annually by comparing carrying amount of the unit, including the goodwill, with a recoverable mount of the unit. The recoverable amount in each units exceeded it's carrying amount hence the goodwill allocated to the units was not impaired.

16. Financial investments

	2015	2014
Financial investments-held-to-maturity (HTM)	6,529,389	6,446,368
Fair value through profit or loss financial assets	10,759,852	10,965,529
Loans and receivables	1,775,278	1,686,259
	19,064,519	**19,098,156**

The Group impaired Shs. 120 million in corporate bonds as a result of the issuer being put under statutory management. If, in subsequent periods the value of the impaired amounts decreases and the decrease can be related objectively to a specific set of events then the Group will apply a reversal not exceeding the initial amount impaired depending on available information.

a) Held-to-maturity

	2015	2014
Treasury bills and bonds		
Short term	-	1,263,920
Long term	6,529,389	5,182,448
	6,529,389	**6,446,368**
Maturity analysis		
Maturity within 1 year	1,093,622	889,960
Maturity after 1 year but within 5 years	2,822,931	2,942,931
Maturity after 5 years but within 10 years	1,574,423	1,575,064
Maturity after 10 years	1,038,413	1,038,413
	6,529,389	**6,446,368**
Held-to-maturity movement analysis		
As at 1 January	6,446,368	6,494,874
Additions	1,044,759	1,055,332
Maturities	(961,738)	(1,103,838)
As at 31 December	**6,529,389**	**6,446,368**

b) Financial assets at fair value through profit or loss

	2015	2014
Quoted shares	3,065,010	3,830,414
Unquoted shares	42,660	42,341
Government securities	7,652,182	7,092,774
	10,759,852	**10,965,529**

Notes to the financial statements (continued)

	Group 2015 Shs '000	Group 2014 Shs '000	Company 2015 Shs '000	Company 2014 Shs '000
16. Financial investments (continued)				
i) Quoted shares				
As at start of year	3,830,414	2,290,493		
Additions	770,107	1,624,386		
Disposals	(852,312)	(265,867)		
Net fair value gains	(652,440)	192,572		
Currency translation	(30,759)	(11,170)		
As at end of year	**3,065,010**	**3,830,414**		
ii) Unquoted shares				
At start of year	42,341	156,697		
Additions	-	19,275		
Disposals	3,989	(132,428)		
Net fair value losses	(3,670)	(1,203)		
As at end of year	**42,660**	**42,341**		
iii) Government securities				
At start of year	7,092,774	5,571,197		
Additions	2,587,939	3,280,718		
Disposals	(1,871,317)	(1,771,193)		
Fair value gains	(174,834)	12,052		
Currency translation	17,620	-		
As at end of year	**7,652,182**	**7,092,774**		

As at 31 December 2015, Liberty Life Assurance Limited had a total of Shs 1,185,600,000 (2014: Shs 1,077,413,066) of government securities classified as held-to-maturity held under lien by the Central Bank of Kenya, as prescribed by the insurance act section 32 (1 (a))

As at 31 December 2015, Heritage Insurance Kenya Company Limited had a total of Shs 300 million (2014: Shs 300 million) of government securities held under lien with the Insurance Regulatory Authority, as prescribed by the insurance act section 32 (1 (b)).

c) Loans and receivables

	2015	2014
Mortgage loans	642,611	674,797
Policy loans	1,006,269	876,943
Other loans and deposits maturing after 90 days	126,398	134,519
	1,775,278	**1,686,259**

Notes to the financial statements (continued)

Notes to the Annual Report And Financial Statements

17. Property and equipment

Group	2015 Cost or Revaluation	2015 Accumulated Depreciation	2015 Carrying Value	2014 Cost or Revaluation	2014 Accumulated Depreciation	2014 Carrying Value
Buildings on leasehold land	868,162	-	868,162	780,926	-	780,926
Motor vehicles	61,100	(50,473)	10,627	69,808	(53,560)	16,248
Furniture and equipment	931,257	(738,495)	192,762	762,956	(555,126)	207,830
Computer equipment	159,763	(132,602)	27,161	286,191	(227,523)	58,668
Total	**2,020,282**	**(921,570)**	**1,098,712**	**1,899,881**	**(836,209)**	**1,063,672**

Reconciliation of property and equipment - Group - 2015

	Opening balance	Additions	Disposals	Revaluations	Currency adjustmnt	Cumulated on disposal	Depreciation	Total
Buildings on leasehold land	780,926	83,836	-	15,500	-	-	(12,100)	868,162
Motor vehicles	16,248	5,436	(2,058)	-	(380)	-	(8,619)	10,627
Furniture and equipment	207,830	38,970	-	-	(1,795)	-	(52,243)	192,762
Computer equipment	58,668	16,130	-	-	-	(21,903)	(25,734)	27,161
	1,063,672	**144,372**	**(2,058)**	**15,500**	**(2,175)**	**(21,903)**	**(98,696)**	**1,098,712**

Reconciliation of property and equipment - Group - 2014

	Opening balance	Additions	Disposals	Transfers/ Reclassifications	Revaluations	Currency adjustmnt	Depreciation	Total
Buildings on leasehold land	769,294	-	-	3,632	8,000	-	-	780,926
Motor vehicles	18,130	9,551	-	-	-	361	(11,794)	16,248
Furniture and equipment	233,193	45,957	(10)	-	-	(86)	(71,224)	207,830
Computer equipment	64,284	3,540	-	-	-	-	(9,156)	58,668
	1,084,901	**59,048**	**(10)**	**3,632**	**8,000**	**275**	**(92,174)**	**1,063,672**

Notes to the financial statements (continued)

17. Property and equipment (continued)

There were no items of property and equipment pledged by the Group to secure liabilities. Buildings were revalued as at 31 December 2015 by Tysons Limited, Lloyd Masika Limited and Kenya Valuers & Estate Agents Limited, independent valuers, on the basis of the market value for existing use. The resultant revaluation surplus was credited to the revaluation reserve.

18. Investment property

Group	2015 Cost or Valuation	2015 Accumulated Depreciation	2015 Carrying Value	2014 Cost or Valuation	2014 Accumulated Depreciation	2014 Carrying Value
Investment property	1,035,500	-	1,035,500	936,000	-	936,000

Reconciliation of investment property - Group - 2015

	Opening balance	Fair value adjustments	Total
Investment property	936,000	99,500	1,035,500

Reconciliation of investment property - Group - 2014

	Opening balance	Dispossals	Reclassification to property & equipment	Fair value adjustments	Total
Investment property	842,200	(57,000)	(3,632)	154,432	936,000

Investment properties are stated at fair value. This has been determined based on independent valuations performed by Lloyd Masika Limited, Tysons Limited and Kenya Valuers & Estate Agents Limited (professional valuers) as at 30 November for Liberty Life and 31 December 2014/15 for Heritage Insurance Company Kenya Limited. The fair values represent the amount at which the assets could be exchanged between knowledgeable willing buyer and seller at an arm's length transaction at the date of the valuation. The valuations are performed on an annual basis and the fair value gains and losses are recognised as investment gains in the income statement. The investment property rental income earned by the Group from its investment property leased out under operating leases as at 31 December 2015 amounted to Shs 57 million (2014: Shs 55 million).

19. Intangible assets

Group	2015 Cost or Valuation	2015 Accumulated Depreciation	2015 Carrying Value	2014 Cost or Valuation	2014 Accumulated Depreciation	2014 Carrying Value
Intangible assets	405,306	(318,585)	86,721	336,539	(299,395)	37,144

Reconciliation of intangible assets - Group - 2015

	Opening balance	Additions	Amortisation	Total
Intangible assets	37,144	68,769	(19,192)	86,721

Reconciliation of intangible assets - Group - 2014

Cost or	Opening balance	Additions	Currency adjustmnt	Other (write off unrecoveable tax credits on admin systems)	Amortisation	Total
Intangible assets	51,976	30,446	108	(34,175)	(11,211)	37,144

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
20. Reinsurers' share of insurance liabilities				
Reinsurers' share of:				
Unearned premium	1,027,058	1,328,346		
Notified claims outstanding	546,582	678,508		
Claims incurred but not reported	741,690	96,291		
	2,315,330	**2,103,145**		

Amounts due from reinsurers in respect of claims already paid by the Group on contracts that we reinsured are included in reinsurance receivables on the statement of financial position.

21. Cash and cash equivalents

Cash and cash equivalents consist of:				
Cash at bank and in hand	527,187	494,552	17,709	77,610
Deposit with financial institutions	6,229,987	5,757,210	-	-
Cash and cash equivalents	**6,757,174**	**6,251,762**	**17,709**	**77,610**

22. Insurance contract liabilities		
Short-term (non-life) insurance contracts		
Reported claims and claims handling expenses	1,945,738	1,879,275
Claims incurred but not reported	675,971	241,774
Long term insurance contracts Reported claims and claims handling expenses	301,704	227,918
Actuarial value of long term liabilities	8,137,339	7,371,762
	11,060,752	**9,720,729**

i) Short term insurance contracts

The Group uses Bornehuetter Fergusson (BF) technique to estimate the ultimate cost of claims for the Incurred But Not Reported (IBNR) provision. The BF method recognizes the occasional limitation of the Chain Ladder in using the actual claims paid or reported only but also takes into account the loss ratios of the business classes to provide an additional indication of the expected ultimate claims.

As the data is still sparse and not fully matured for the various classes of business, basic Chain Ladder will be rather volatile. BF was therefore recommended to provide a more stable statistical estimate of the liabilities for the IBNR provisions.

The latest valuation of IBNR was carried out by Ernst & Young as at 31 December 2015.

ii) Long term insurance contracts

The Group determines its liabilities on the long-term insurance contracts on a realistic basis, namely the Gross Premium Valuation (GPV) method.

The GPV method makes explicit assumptions on expected future deaths, investment returns, lapses, expenses and bonuses as well as margins for uncertainty on these assumptions. Assumptions used are based on recent experience investigations conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

Notes to the financial statements (continued)

22. Insurance contract liabilities (continued)

The liabilities are determined by the Group on the advice of the consulting actuary and actuarial valuations are carried out on an annual basis. The latest actuarial valuation of the Group's life fund was undertaken as at 31 December 2015 by the consulting actuaries – QED Actuaries and Consultants (Pty) Limited.

Valuation assumptions:

The significant valuation assumptions for the actuarial valuation as at 31 December 2015 are summarised below.

i) Mortality

The GPV basis uses 100% of the SA85/90 ultimate mortality table plus an AIDS allowance of 100% of the AB1 Select and Ultimate tables (2008 ASSA model). Mortality assumption is based on recent mortality investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

For Group Life contracts which are only valued as an IBNR, there is a mitigating effect of changing premium rates on an annual basis as contracts are reviewed annually and no mortality guarantees are offered.

ii) Investment returns

The GPV actuarial valuation as at 31 December 2015 used an expected future investment return of 14.7% compounded annually for individual long term insurance contracts and annuity business. On the GPV basis the valuation interest rate assumption allows for a margin over the expected future investment return, hence strengthening the prudence in the GPV valuation basis.

The weighted average rate of return on a Fair Value basis as earned by the assets backing the life fund for the year ended 31 December 2015 was 7.85% p.a. (2014: 12.28% p.a.) and the average over the last three years was 9.78% p.a

iii) Expenses and expense inflation

The current level of management expenses is taken to be an appropriate expense base for the GPV basis. The expense assumption is derived from the recent expense investigation. The purpose of the investigation was to split expenses between initial and renewal expenses. The result of the investigation showed that the initial and renewal expenses decreased in real terms comparative to prior year.

For the GPV basis an appropriate assumption is made on the increase of renewal expenses. An expense inflation of 11.1% (2014: 9.0%) is assumed.

iv) Withdrawals

The GPV method allows assumptions to be set on the rate of termination of an insurance contract following a failure to pay premiums (lapse) or the voluntarily termination before the insurance contract maturity (surrender) per policy year.

The withdrawal assumption is derived from recent withdrawal experience investigation conducted by the company while taking into consideration prior year assumptions and the outlook of future experience.

v) Sensitivity analysis

The sensitivity of the GPV results has been tested to certain key assumptions by calculating the effect of assumptions not being met. The results of the sensitivity analysis (in Shs.'000) can be summarized as follows:

Notes to the financial statements (continued)

22. Insurance contract liabilities (continued)

	Shs '000	% Change
Main basis	19,720,444	- %
Expenses plus 10%	19,820,475	0.5%
Mortality and other claim experience plus 10%	19,771,514	0.3%
Interest rate less 1%	19,787,684	0.3%
Expense inflation plus 1%	19,757,367	0.2%
Withdrawals plus 10%	19,722,898	-%

As can be seen from the above table, the valuation results depend on the assumptions made. If these assumptions are not realized in practice, then the surplus in the Life Fund would differ from that expected.

It should be noted that the sensitivity calculations have been done independently. This means that interactions between various factors have not been considered. For instance, in the event of withdrawals increasing, it is likely that per policy expenses will also increase. Thus, when considering various scenarios, one needs to use an interplay of the above figures. This has not been allowed for in the above analysis.

	Group	
	2015 Shs '000	2014 Shs '000
23. Deposit administration liabilities		
As at 1 January	12,047,554	11,103,757
Pension fund deposit received	1,652,286	1,733,220
Surrenders and annuities paid	(2,401,518)	(1,671,605)
Interest payable to policyholders	231,178	882,182
GPV liabilities adjustment	(66,395)	-
As at 31 December	**11,463,105**	**12,047,554**

24. Unearned premium reserve

This reserve represents the liability for short term business contracts where the Group's obligations are not expired at the year end. Movements in the reserve are shown below:

As at 1 January	2,768,235	2,664,554
Increase in the year	305,629	155,633
Currency adjustment	(69,359)	(51,952)
	3,004,505	**2,768,235**

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs 'ooo	2014 Shs 'ooo	2015 Shs 'ooo	2014 Shs 'ooo
25. Other receivables				
Amounts due from related parties	41,098	13,646	-	-
Prepayments	258,075	206,645	-	-
Operating lease receivables	1,477	1,994	-	-
Other receivables	134,905	113,289	-	-
	435,555	**335,574**	**-**	**-**
26. Other liabilities				
Amounts due to related companies	31,718	62,071	122,268	163,918
Accrued expenses	449,544	321,615	41,463	67,934
Other liabilities	382,583	545,123	-	-
	863,845	**928,809**	**163,731**	**231,852**

27. Contingent liabilities and commitments

As is common with the insurance industry in general, the Group is subject to litigation arising in the normal course of insurance business. The Directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the Group.

Capital commitments

Capital expenditure on property and equipment contracted for at the reporting date amounted to Shs. 52.7 million (2014 : Shs 10.5 million).

	2015 Expected expenditure Shs '000	2014 Expected expenditure Sh '000
Not later than 1 year	41,719	10,524
Later than 1 year and not later than 5 years	11,000	-
	52,719	**10,524**

Operating lease commitments

The Group leases various outlets under non-cancellable operating lease. The lease terms are between 1 and 5 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

As Lessee		
Not later than 1 year	14,266	14,266
Later than 1 year and not later than 5 years	13,254	29,804
	27,520	**44,070**

Notes to the financial statements (continued)

As Lessor		
Not later than 1 year	62,869	8,280
Later than 1 year and not later than 5 years	2,520	5,310
	65,389	**13,590**

28. Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement on the deferred tax account is as follows:

	Group	
	2015 Shs '000	**2014 Shs '000**
a) Deferred tax asset		
As at start of year	108,076	65,037
(Credit)/Charge to profit or loss	17,570	39,622
Charge to equity	(1,731)	3,417
As at 31 December	**123,915**	**108,076**

	Group			
2015	**Credit/ 1 January 2015 Shs '000**	**Credit/ (Charge) to IS Shs '000**	**(Charge to equity Shs '000**	**31 December 2015 Shs '000**
Property and equipment	16,808	2,146	-	18,954
Other provisions	104,354	19,077	(1,731)	121,700
Fair value gains	(13,363)	(7,780)	-	(21,143)
Currency translation	277	4,127	-	4,404
Net deferred tax asset	**108,076**	**17,570**	**(1,731)**	**123,915**

2014	**1 January 2014 Shs '000**	**Credit/ (Charge) to IS Shs '000**	**Credit/ (Charge to equity Shs '000**	**31 December 2014 Shs '000**
Property and equipment	10,870	5,938	-	16,808
Other provisions	67,253	33,684	3,417	104,354
Fair value gains	(13,363)	-	-	(13,363)
Currency translation	277	-	-	277
Net deferred tax asset	**65,037**	**39,622**	**3,417**	**108,076**

	Group	
	2015 Shs '000	**2014 Shs '000**
b) Deferred tax liability		
As at 1 January	541,887	352,214
Charge to other comprehensive income	2,920	5,818
Charge to statement of changes in equity	250,081	183,855
As at 31 December	**794,888**	**541,887**

Notes to the financial statements (continued)

		Group		**Company**	
		2015 Shs '000	**2014 Shs '000**	**2015 Shs '000**	**2014 Shs '000**
29. Cash generated from operations					
Profit before income tax Adjustments for: Interest income		953,702	1,346,569	276,074	169,392
Adjustments for:					
Interest income		(2,458,401)	(2,063,438)	-	-
Depreciation	17	98,696	92,174	-	-
Amortisation of intangible assets	19	19,192	11,211	-	-
Gain on sale of property and equipment		-	(101)	-	-
Assets write off	19	-	34,175	-	-
Revaluation gain on building on leasehold land		(15,500)	(8,000)	-	-
Share of income from associates	10	-	(9,918)	-	-
Fair value gain on investment property	18	(99,500)	(154,432)	-	-
Proceed from disposal of associates		-	79,969		-
Dividend and rental income	5	(225,573)	(208,118)	(370,000)	(230,000)
Other net investment expenses		6,197	(105,757)	-	-
Gain on sale of financial investments		830,944	(203,421)	-	
Changes in working capital:					
Technical provisions		546,653	1,955,730	-	-
Trade and other payables		(64,964)	15,518	(68,121)	61,317
Trade and other receivables		(99,981)	126,299	-	-
		(508,535)	**908,460**	**(162,047)**	**709**

30. Related parties

The Group is controlled by Liberty Holdings Limited incorporated in the Republic of South Africa. The ultimate parent of Liberty Holdings Limited is Standard Bank Group Limited, which is incorporated in South Africa. There are other companies which are related to Liberty Kenya Holdings Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

a) Gross premiums written		
CfC Stanbic Bank Limited	321,524	284,888
Strategis Insurance Tanzania Limited	-	4,529
STANLIB Kenya Limited	6,443	7,322
	327,967	**296,739**
b) Claims incurred		
CfC Stanbic Bank Limited	202,767	117,777
Strategis Insurance Tanzania Limited	-	47,862
STANLIB Kenya Limited	-	1,023
	202,767	**166,662**
c) Rental income		
CfC Stanbic Bank Limited	7,950	7,492
STANLIB Kenya Limited	6,851	6,205
	14,801	**13,697**

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
30. Related parties (continued)				
d) Interest income				
CfC Stanbic Bank Limited	24,926	45,723	-	-
STANLIB Kenya Limited	42,101	-	-	-
	67,027	**45,723**	**-**	**-**
e) Dividend income				
The Heritage Insurance Company Kenya Limited	-	-	370,000	230,000
	-	**-**	**370,000**	**230,000**
f) Investment management expenses				
STANLIB Kenya Limited	102,908	81,490		
	102,908	**81,490**		
g) Outstanding balances with related parties				
i) Accounts receivable				
Strategis Insurance Tanzania Limited	-	758		
STANLIB Kenya Limited	-	6,482		
CfC Stanbic Bank Limited	112	-		
Liberty Life Assurance Uganda Limited	8,864	4,641		
Liberty Health (RSA) Limited	1,765	1,765		
Heritage Insurance Company Tanzania Limited	22,359	-		
Liberty Kenya Holdings Limited	7,998	-		
	41,098	**13,646**		
ii) Accounts payable				
CfC Stanbic Bank Limited	1,623	12,042	-	-
Liberty Life Assurance Kenya Limited	15,451	-	7,998	55,127
CfC Investments Limited	-	-	106,669	106,669
The Heritage Insurance Company Kenya Limited	22,245	-	7,601	2,122
STANLIB Kenya Limited	6,700	6,056	-	-
Liberty Africa Holdings Limited	(6,828)	43,973	-	-
Strategis Insurance Tanzania Limited	129	-	-	-
Liberty Kenya Holdings Limited	(7,602)	-	-	-
	31,718	**62,071**	**122,268**	**163,918**

These amounts are unsecured and have no specific repayment period.

Notes to the financial statements (continued)

	Group		Company	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
30. Related parties (continued)				
h) Financial investments				
CfC Stanbic Bank Limited balances and deposits	52,409	516,651	-	69,931
CfC Stanbic Bank Limited corporate bonds	165,428	163,962	-	-
CfC Stanbic Holdings Limited equity investments	22,110	35,697	-	-
	239,947	**716,310**	**-**	**69,931**
i) Key management compensation				
Salaries and other employment benefits	271,265	229,498	-	-
Fees for services as a director	19,529	18,066	2,864	2,714
	290,794	**247,564**	**2,864**	**2,714**

Notes to the financial statements (continued)

1. Shareholding

i) Top ten shareholders	**Number of shares held**	**% Shareholding**
Liberty Holdings Limited	309,333,535	57.74%
African Liaison and Consultant Services Limited	122,898,266	22.94%
Genghis Nominee A/C 029	27,000,000	5.04%
Standard Chartered Kenya Nominees Ltd A/C KE22446	21,081,941	3.94%
Standard Chartered Kenya Nominees Non - Resd. A/C 9866	10,494,400	1.96%
Archer & Wilcock Nominees Limited	6,490,959	1.21%
The Permanent Secretary to the Treasury of Kenya (On behalf of the Govt of Kenya)	4,602,008	0.86%
CfC Stanbic Nominees Ltd A/C NR1031142	3,888,273	0.73%
Standard Chartered Kenya Nominees Ltd A/C KE22816	2,790,086	0.52%
CfC Stanbic Nominees Ltd A/C NR1030653	1,237,705	0.23%

ii) Distribution of shareholding		**Number of Shareholding**	**Number of shareholders %**
shares held			
1 - 500	1,950	324,938	0.0607%
501 - 1,000	566	404,817	0.0756%
1,001 - 5,000	1,069	2,296,682	0.4287%
5,001 - 10,000	435	3,216,827	0.6005%
10,001 - 50,000	332	6,330,956	1.1818%
50,001 - 100,000	52	3,588,999	0.6700%
100,001 - 500,000	30	5,230,543	0.9764%
500,001 - 1,000,000	5	3,439,364	0.6420%
1,000,001 - 999,999,999,999	11	510,874,373	95.3644%
Total	**4,450**	**535,707,499**	**100%**

To: The Company Secretary
Liberty Kenya Holdings Limited
P.O. Box 30390 - 00100
Nairobi

PROXY FORM

I/We ______________________________

of P.O. Box ______________________________

being a member of LIBERTY KENYA HOLDINGS LIMITED here appoint

of ______________________________

of failing him ______________________________

of ______________________________

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday 7th June 2016 and at any adjournment thereof.

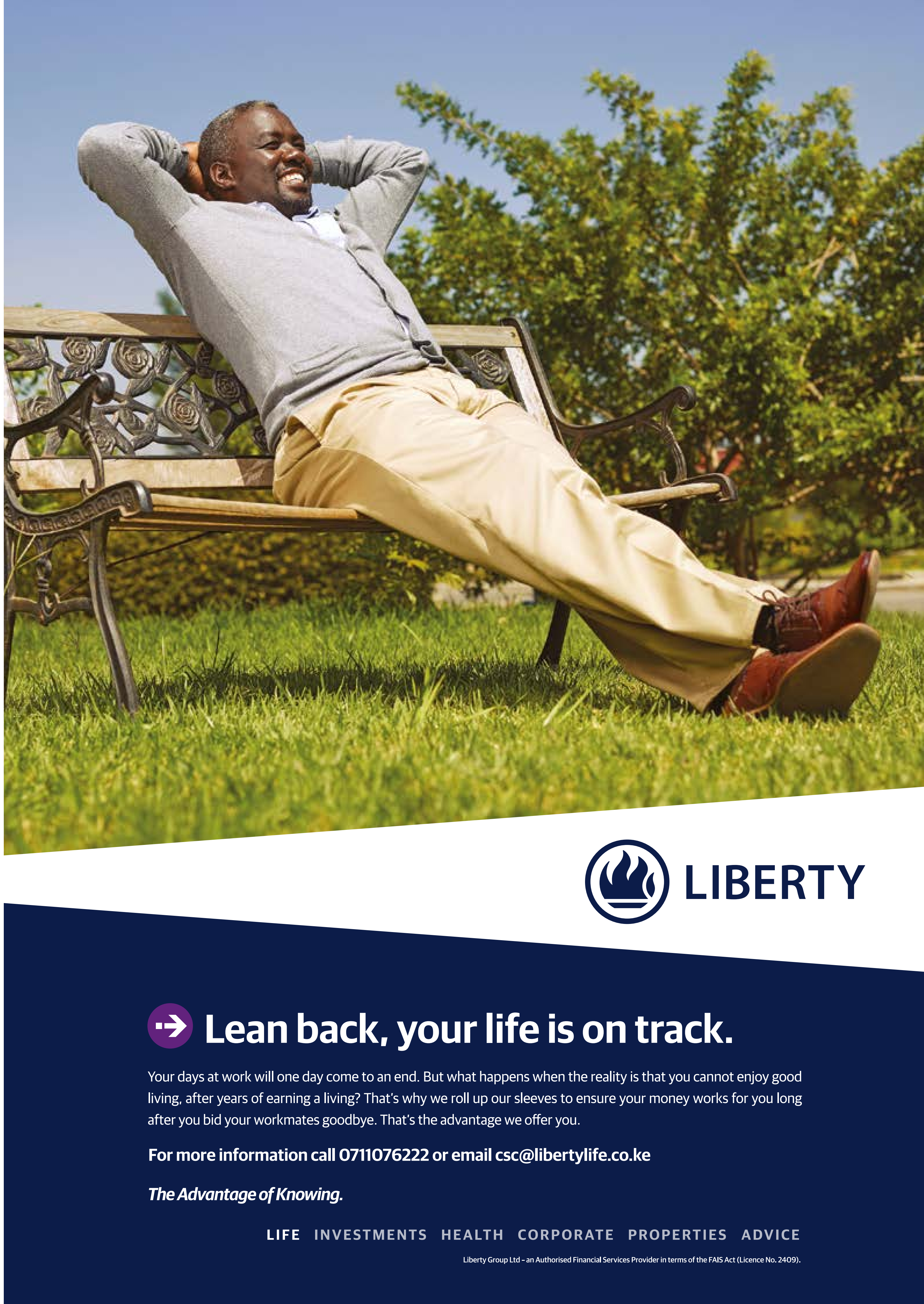
Date this ____________ day of ______________ 2016

Signed ______________________________

Name ______________________________

NOTE: The Proxy form should be completed and returned to the Company Secretary not later than 48 hours before the meeting or any adjournment thereof.

Notes


LIBERTY
Lean back, your life is on track.
Your days at work will one day come to an end. But what happens when the reality is that you cannot enjoy good living, after years of earning a living? That's why we roll up our sleeves to ensure your money works for you long after you bid your workmates goodbye. That's the advantage we offer you.
For more information call 0711076222 or email csc@libertylife.co.ke
The Advantage of Knowing.
LIFE INVESTMENTS HEALTH CORPORATE PROPERTIES ADVICE
Liberty Group Ltd – an Authorised Financial Services Provider in terms of the FAIS Act (Licence No. 2409).

LIBERTY